

ITIMES

MONDAY AUGUST 10 1998

World Business Newspaper http://www.FT.com



Noël Forgeard New man in the Airbus cockpit inside Track, Page 6



Market mover Pierer aims to spark a Siemens revival Page 15



Shell goes green Genuine commitment or image repair? Inside Track, Page 8

Mexico Stock market suffers growing pains Page 16

WORLD NEWS

UN arms inspectors suspend monitoring of new Iraqi sites

The UN commission charged with dismanting Iraq's weapons of mass destruction said it had suspended arms inspections of new sites after Baghdad decided to stop co-operating with UN inspectors. Page 2

ovo villages attacioni Serbian forces mopping up in istern Kosovo were reported to have attacked villages in the Decani area near the Albanian border. Survivors' tales, Page 3

War fears in central Africa Leaders of the Democratic Republic of Congo and Rwanda exchanged threats of outright war as mediation efforts by southern African states began

fliack passengers held Tussian security forces kept 70 passengers aboard an airliner at y's Domodadovo airport, believing hijackers who earlier threatened to blow it up might still be among them.

Taliban claims last stronghold Afghanistan's Mosiem fundamen alist Taliban militia said it captured the northern city of Mazar-I-Sharif, the stronghold of a coali-tion of ethnic militias which has resisted the Taliban for four

Roman Catholics erected five new crosses outside the Nazi death camp at Auschwitz, despite Israeli calls that dozens of crosses at the site be

Foreign activists detained in Burms Eighteen foreign activists were tained in the Burmese capital after handing out leaflets calling on people to remember a mas cre of opposition supporters 10

ng party ahead in Sweden ... eden's ruling Social Democrats widened their lead over the weeks before a general election, according the latest opinion poll.

Benktash says ruling 'unjust' Turkish Cypriot leader Rauf Denktash said a European court ituling that Turkey must compensate a Greek Cypriot refugee from fighting in 1974 was funjust pend blased".

Rumours on the internet of a ecuroence of racial unrest in Malaysia sparked a run on sugar, flour and rice, while some businesses sent workers home and

closed early. Page 4 . . . Iran ready for normalisation Iran signaled its willingness to se relations with iraq, but said that exchanging all prisoners from their 1980-88 war must come first.

Brazil announces labour reform The Brazilian government has announced an extensive reform of the country's labour laws in an attempt to halt rising unemployment. Page 4

Bell Atlantic workers strike About 73,000 workers went on strike at Bell Atlantic, one of the biggest US telephone companies, posing a threat to telephone services in New York, Washington DC and the north-east.

Fessett on course for S Africa American adventurer Steve Fossett was far out over the south Atlantic, headed for South Africa in his attempt to make the first non-stop trip around the world in a balloon.

BUSINESS NEWS

UBS removes LTCB from brand name of joint venture

United Bank of Switzerland has removed any reference to Long Term Credit Bank from the brand name of its joint venture with the Japanese bank, and may buy the 50 per cent of the joint venture it does not own. Page 13

involved in controversial, "unofficlair car imports to the UK have applied for judicial review at the High Court of UK government rules restricting their activities. Page 12

Towers Penin, management consultancy, has warned inves-tors to check for hidden charges in the "expensive and antiquated" asset management ser vices in Europe. Page 12

BOC, the British Industrial gases group, is expected to announce up to 3,800 job cuts around the world tomorrow after a wide cost-cutting review. Page 13

Audi, the executive car subsidiary of Germany's Volkswagen. underlined its position as one of Europe's fastest-growing car companies when it reported firsthalf 1998 pre-tax profits increased by 64 per cent to DM804m (\$454m). Page 16

Merger activity among European 18 months, yet most mergers in the sector have failed to deliver value to their investors, according to a new study. Page 14

insurance, telecoms and transport companies are the most at risk of disruption from the introduction of European economic and monetary union. Page 13

Suah, Swedish carmaker, has announced higher first-half losses after production stoppages and increased costs asso-ciated with the US launch of its flagship 9-5 model. Page 16

Consection of Beats, the state-backed vehicle set up to sell assets from Credit Lyonnals sell AOM, one of France's biggest airlines. Page 16

Metra Suria, Finland's third largest forestry group, reported a strarp increase in first-half profits following rising demand for paper and packaging products and reduced loan losses, Page 15

initial public offerings on the New York stock market will this week provide some indication of institutional investor sentiment after two weeks of turbulence in global stock markets. Page 15.

El Entertainment Television, the Los Angeles-based cable and satellite network, is talking to partners about launching a UK channel. Page 14

Canada's bank shares fell after a profit warning from Canadian imperial Bank of Commerce on Friday sparked fears of a slowdown in the sector, Page 16.

Casio, the Japanese electronics group, announced plans for a Y15bn (\$103m) share buyback as part of an effort to improve shareholder equity. Page 15

The World Bank has warned India that its high public sector deficit is threatening the country's macrosconomic stability and acting as a drag on growth. Page 4

World Equity Markets

The latest frends and data from money?

Executives
This chart above the official controls takes of the 17 countries that will perfict only a figure of the 18 countries that will perfict only a figure of the 18 countries that will perfect only a figure of the 18 countries to converge ut a 3,75% initial pain for the European Central Busic at the beginning of 1999

EURO INTEREST RATE CONVERGENCE

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FBI agents to probe embassy blasts

Michela Wrong in Heimbl and Busin Khalaf in Loaden

investigators from the Federal Bureau of Investigation and other agencies to track down the bombers who devastated build-ings near US embessies in east Africa on Friday, killing more

US officials yesterday said a video camers on top of the US embassy in Dar es Salasm, Tanzanie's capital, may have filmed the attack. But no details were available about the film's

to have seen a man drive into the rear parking bay of the US embassy in Nairobi in a pick-up truck just before the blast the The newspaper also quoted a security man who said he had

seen three Arabs using a video camera to film the embas days before the blast. He told the Nation he had alerted the guards at the embassy but they had dismissed his fears. However, three days after the

bombings, US officials admitted

which groups were behind the

Albright rejects calls for swift action against terror suspects

Madeleine Albright, US secre tary of state, yesterday warned against calls for swift retribution more information was needed before the US could act.

She said: "I think that while there might be an instant gratification to do something about an attack on us, we have to be absolutely sure we have the facts straight. The memory of the United States is very long and our reach is very far, and we have systematically brought in

people who have been accused of errorist acts."

Speculation about responsibility for the attacks continued to focus on extremist groups in the Middle East. A previously unknown Islamic organisation calling itself the Islamic Army for the Liberation of Holy Places claimed responsibility at the weekend for the bombings, in statements sent to Arab news

The group said the Nairobi attack had been carried out by two Saudis from Mecca and the

Egyptian. However, Islamic groups in London said they had never heard of the Islamic Army and warned it might be a new group trying to make its mark by claiming attacks it had not been

As the search for the perpetra-tors intensified, the White House faced criticism that it had taken a soft line on terrorism by failing to identify the terrorists behind the 1996 bombing of a US com-plex in Dhahran, Saudi Arabla, which left 19 American service

Palestinian Authority under fire over economic planning

responsible for the autonomous areas of the West Bank and Gaza. has come under fire from internstional donors in a dispute over funding of up to \$600m a year.

A letter signed by the Euro-pean Union – the largest of the donors – the World Bank, USAid, Japan and Norway, has criticised Nabil Sheath, Palestinian minister of planning and international co-operation, for the authority's slowness in setting economic strategy and spending priorities for the coming year.

· He was one of several ministers singled out last year for alleged corruption by the auditing committee of the Palestinian legislatinian perliament.

The Palestinian Authority, saying it was still "unclear as to health as our priorities and [are] exactly what assistance is needed by the Ministry of Planning" to set out an agenda for the Palestinian development plan (PDP). Mr Shaath is responsible for

drawing up the plan, the blueprint for setting out recurring costs and priorities for distributing donor aid.

The donors also warned that the authority had to prove its "ability to absorb moderately high levels of investments ... in an environment of heightened

Mr Sheath admitted there was poor communication between the donors and the authority, but he rejected charges that the development plan lacked a strategy. "We are sharpening our priorities," he

The letter, sent to Mr Shaath, said. "We have identified water, asking donors to choose from among these sectors." He said an annual \$600m of donor assistance was required until 2001.

But donors believe the Palestinian economy has few chances of improvement and self-sufficiency unless Israel allows full the PA sets up an adequate tax week, including legislation to cream and investment legal framework. are a "bridge bank" that would Joint venture in doubt, Page 13

Tokyo may be forced into wider banking reform

nes Harding in Beijing

said the government could make its plans for banking sector reform more radical to win broad-based political support for key financial sector bills.

We need to pass [our banking bills] as early as possible by striking a compromise with the opposition parties, no matter what the cost," Keizo Obuchi said. "We must enter into talks with opposition forces that may have negotiable plans."

party's plans are too timid. They want to introduce more transparency and speed in tackling problems, as well as to consider nationalising banks.

strength in parliament and may force the LDP to change some

proposals. This would potentially bring a "bridge bank" bill could add to new dimension into Japan's market unease, some of Japan's efforts to tackle the banking sector, which has problem loans also hope the opposition's moves and free passage of goods worth Y87,000bn (\$603bn). The between and in and out of the LDP is planning to submit to par-West Bank and Gaza, and until liament two banking bills this

with any possible bank collapses The fate of this bill is being closely watched by the markets because it is central to efforts to tackle banking sector problems.

The yen fell to a two-month low of Y146.25 against the dollar on Friday, almost touching the Y146.75 level it reached in June before the US unexpectedly stepped in with a round of intervention. The fall reflected market disappointment that Mr Obuchi did not pledge more radical banking reform in his first speech to

The Japanese opposition have warned they may seek to block the bill in the Upper House of parliament because they believe the ruling Liberal Democratic yen. This in turn could fuel fears about a wave of competitive devaluations across Asia,

However Jiang Zemin, China's president, yesterday reiterated Beijing's pledge not to devalue Although the LDP has so far the Chinese currency, telling the House elections last month have ter that China would continue its given the opposition more efforts to keep the renminbi stable despite a slowing economy.

Although a period of political wrangling in Tokyo about the trading partners, such as the US, will force the LDP to improve its banking legislation.

UNHCR responds to claims over accounts

By Andrew EdgecHile-Johnson in Landon

The United Nations High Commissioner for Refugees moved at the weekend to datuse criticism of its management and financial practices, with a rebut-Financial Times investigation

accounting and management

hazardous areas in which its staff concluding judgment on its operate. The number of refogees accounts for 1997 was "positive relying on the operation has dou- and unqualified". the agency, led by Sadako Ogata, the high commissioner, welcorner close external and internal scrutiny of its operations, believing that it is critical for revitalis-ing the organisation and helping it remain strong".

UNHCR's accounting practices in a report from an international board of auditors last month. Some points had been raised in previous years, including con cerns that the organisations with which the UNHCR works in the tal of allegations raised by the field had not submitted audit certificates in time to back up The nine-page document, published eight days after the in submitting project monitoring reports, and problems with implementing a new asset-management. menting a new asset-manage-ment system. The organisation shortcomings, was circulated to said, however, it had taken mea-58 donor governments on Friday. sures "to improve itself for the Several donor nations had sake of better services to refugees expressed concern about issues and to maintain the commitment raised by the investigation. of its member governments". It of its member governments". It The UNHCR's report said its also rejected allegations of "dubi-

record must be judged in the con-text of the "extraordinary The UNHCE laid heavy empha-demands" placed on it by the sis on the fact that the auditors'

bled to 22m over 10 years. It said. The report did not tackle allegations that it has not adequately monitored its compliance with UN policy guidelines on the protection of women, children and the environment.

MHCR counters claims, Page 2

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UN suspends

new Iraq site

had suspended arms inspec-

tions of new sites after Bagh-

dad decided to stop co-oper-

The move intensifies a

stand-off between the UN

and Iraq, which began last

week when Baghdad said it

would suspend its co-opera-

tion with Unscom and called

for an immediate end to

sanctions imposed after it

Baghdad ongoing monitoring

and verification centre, said

the inspections would be

suspended. But Unscom

monitor sites already identi-

fied by inspectors looking for

evidence of prohibited weap-

The Security Council has

dismissed the Iraqi move as

invaded Kuwait in 1990. Janet Sullivan, of the UN

ating with UN inspectors.

Kenya rescue teams turn on US marines

By Michela Wrong in Natrobl

The Americans have behaved like assholes from day one," snorted the ambulance worker. His scathing comment summarised the feelings of many of those standing in the cold, waiting to see whether microphones and sniffer dogs provided by Israel would yield further signs of life below the concrete and metal.

in the three days since a massive bomb ripped through Nairobi's city centre, heavily armed marines working with grim efficiency have cordoned off the shattered US embassy building behind a screen of barbed wire and grey sheeting.

But by last night their failvation efforts atop the huge pile of rubble once known as Ufundi House had triggered amazement and fury among

Situated behind the embassy, the seven-storey building housing insurance offices and a secretarial col-Friday morning's blast.

While the embassy remained standing, the old

Israeli specialists, simply folded. Until Saturday night the calls of victims buried under the debris could still be heard.

But despite growing evidence that the collapsed Ufundi House, rather than the legation, would eventually give up the greatest number of bodies, US marines remained behind their self-appointed perimeter, warning away outsiders attempting to enter the document-strewn premises.

"I went into the embassy soon after the blast to pull a victim out and a marine pulled a gun on me and shouted at me to back off," said David Tredrea, a trauma specialist, "Since then I don't believe a single one of them Ufundi House."

Other rescue workers complained that in the hours folers-by scrabbled with their hands at the wreckage, US marines brushed away requests for shovels and digging tools. "People were asking for a drill so that we could get some air to the people we could hear inside But they refused," said a

William Barr, said the criticisms were unfair, given that overwhelmed US officials were still trying to locate scores of missing employees and establish how many had died inside the embassy itself.

"We don't have a whole load of people on the ground

Prudence Bushnell, ambassador, acknowledged there might have been "some misunderstanding, but stressed the marines were trying to protect a site that could

"You have to cordon off in order to maintain the evidence," she said. "It looks as though we're trying to keep keep the site intact. It is in everybody's interest to over excavation operations find out who is behind the

gators, medical personnel and rescue specialists are heading for Nairobi with equipment and medical sup-

More than 300 US investi-

But according to members of the Israeli team - veterans of earthquakes and sui-



hances of finding survivors become virtually nil after the first 72 hours.

"Last night we were still talking to an injured woman named Rose," said Captain Danny Kaplan. "But we haven't heard her voice today. She may be too tired to talk or she may be dead." By yesterday good news

miraculously pulled from Ufundi House still alive on Saturday after 36 hours below the debris, and there was a flurry of exciteme yesterday when a caretaker's wife and her 13-year-old son walked dazed from the still-

the mass arrival of US per-Washington exercise simed

standing Co-operative Bank

equipment in the coming hours. But the time for miracles has probably already drawn to a close.

somne) will smack more of a

"In hight of the present situstion and pending further instructions, inspections are being conducted of the sites monitoring," she said. These included sites either declared by Iraq or designated by Unscom.

totally unacceptable" but is backtracking from its earlier. more human intelligence to threat of "severest_consequences" if Baghdad violated the agreement worked out between Kofi Annan, UN secretary-general, and Iraqi President Saddam Hussein in February. In it, Mr Saddam pledged full access for

Secretary of state, yesterday and Laura Silber in New York said that Iraq would not win the latest stand-off. "Saddam -Husseln has wrestled him-The United Nations commission charged with self-to the ground. He is stock in a box and he has dismantling Iraq's weapons thrown away the key." she of mass destruction told NBC's Meet the Press. (Unscom) yesterday said it

Despite the Security Countowards Baghdad, Richard Butler, chief UN weapons inspector, said yesterday: "I don't hear any one in the Council saying Iraq should be relieved of its obligations. There are a variety of

Robin Cook, British foreign secretary, accused the lraque leader of "playing his cat and mouse game again" and insisted that the sanctions imposed on Iraq in the wake of the Gulf war would experts: would continue to not be lifted until it complied with UN demands.

traq's ruling Baath party newspaper al-Thawra yester day seld the row with the UN experts could only be and that Baghdad would not accept "a piece of in Iraq which are subject to sweet given to an angry child".

The sanctions include a ban on the free export of Iraq's oil, its most profitable commodity.

To have sanctions lifted Unscom must certify that Iraq is free from all proscribed weapons.

The dispute began when Mr Butler last week rejected a demand by Baghdad that he state that Iraq had destroyed its dangerous weapons

Madeleine Albright, US a declaration.

White House defends security services

By Richard Wolffe in Washington

The US administration yesterday defended its secucism in the wake of Friday's car homb attacks against US embassies in Nairobi and

end of the cold war had the Soviet Union and com- we as a country have prob- ing to alert Washington to a terrorism, which demanded made it more difficult to gather intelligence about groups planning to attack US targets. On NBC televithrough 50 years where we knew who the enemy was, and we consolidated our

munism.

"We now have a new threat. Global terrorism is a huge threat, and we discuss sion, she said: "We went it at all levels. But it is a complicated one. It comes from a variety of places, it deals with individuals who forces, we built up our mili- are willing to commit suicide tary, we had a way of deal- in order to do it or some ing with a specific threat - other act, and I think that

lems with this, and we are nuclear build-up in the dealing with it here and

In the wake of the attacks, international analysts have criticised the US government for failing to adapt its intelligence operations to the threat of terror groups. US agencies earlier this year also came under fire for fail-

Indian subcontinent. Richard Hass, of the Brookings Institution in

relied too heavily on cold war tactics of satellite surtelephone calls. That strategy was inade-

quate against international

The White House yester-Washington, said the US still day said it would attempt to speed security improvements at US embassies veillance and intercepting worldwide, after blaming

JNHCR counters claims of financial mismanagement

By Andrew Edgecliffe-Johnson

The United Nations High has issued a detailed rejection of allegations in the Financial Times concerning financial and other mismanagement, dismissing allegations that the organisation is wasting money or that it has

articles contained "gross errors and misrepresentations, half-truths and dis-

The FT's investigation, published on July 29, was based on interviews with former and current employees and internal documents. These included a detailed report by an international board of auditors, completed last month, on the way the organisation manages the funds received from donor

The UNHCR cites the situation in former Zaire in 1996 as an example of the pressures under which it operates. Appeals to governments to remove criminal and armed elements from the country's refugee camps went unheeded, it says, leaving the organisation with little option but to employ Zurean soldiers to maintain law and order. Those same soldiers later killed refugees and UNHCR staff.

Against this background. the UNHCR insists it places beavy emphasis on ensuring responsible management of its financial and other

■ The auditors' report:

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The FT found that the latest auditors' report, covering 1987, highlighted recommen

dations made for several The United Nations High years which had not been implemented. However, the UNHCR says it had an aircraft which may never "excellent record" of have left the ground, co-operation with the audit according to the organisation's rebuttal, board, and of "following up writes Andrew

The auditors' report financial statements (for 1997] do not truly reflect the expenditure during the year", that accountability of implementing partners was weak and that expenditure on projects was sometimes overstated

ever, to the "positive and unqualified" conclusion to this year's report. Administrative costs: The FT alleged that a substantially smaller proportion of the UNHCR's budget is spent on refugees than the

on audit recommendations".

The UNHCR says its financial statements "make clear distinctions between money went on "programme deliv-ery", including the cost of

The UNHCR acknowledges

Commissioner for Refugees paid \$130,000 to charter two

The UNHCR points, how-

80 per cent it officially Kinshasa, the Zairean claims, and that its accounts contain "hidden" administra-

spent on assistance to refugees and administrative costs". It says administrative support costs amounted to 10.5 per cent of total expenditure in 1997. In answer to a query, a UNHCR spokesman said another 20 per cent personnel to protect refu-

Aircraft chartered in Zaire 'never left the ground'

"clear letter from air traffic control in Kinshasa"

response to a report in Africa Confidential, the London-based newsletter that the UNHCR might have financed supply flights of ammunition as well as food to soldiers of the former Zaire during the country's soldiers later killed refugees and UNHCR staff in the

A UNHCR spokesman, organisation had unearthed evidence that the aircraft in question never flew from capital, to Goma in eastern Zaire, where the soldiers had been employed to guard

> its auditors' query as to whether amounts pledged by donors should be recorded as income before they are paid. The board found that \$64.2m was recorded as income and voluntary contributions in December 31 1997. However, UNHCR says: "As far as current financial rules are concerned, UNHCR has not overstated income and member governments have fully improvements to this proce- money had been spent or

UNHCR refugee camps. He said the UNHCR was still "not 100 per cent sure" whether the flights had gone ahead, but added that an UNHCR investigation into the flights had produced a

flights took place on November 1 1996, the date in question. Mr Janowski confirmed the UNHCR had paid

\$130,000 to Jeffery Travel, a Kinshasa charter company. for the flights. He said the organisations had not been able to recoup

the funds as the company had "fallen apart" when Mobutu Sese Seko's regime He added that the episode was evidence of the acute

problems posed by ituations in which the UNHCR worked, rather than of lax controls. The Financial Times has

endorsed this practice." The FT cited the auditors' concern that \$193.5m was recorded in a provisional account and not justified by the end of the year. "This issue is a technical one and the 1997 accounts although it deals with the question of had not been received by the point at which expenditure incurred by imple ing partners should be taken into the UNHCR's accounts." the UNHCR says, adding

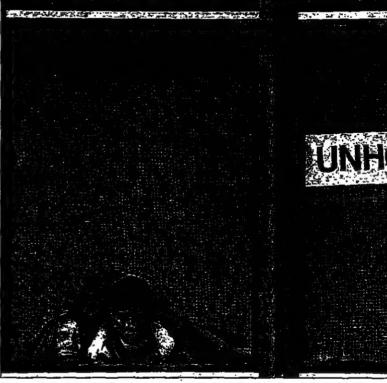
seen purported copies of Invoices from Jeffery Travel, dated October 30 1996, for two flights of 30 tons of material and equipment at a cost of \$65,000

Documents dated October 31 also confirm that the Kinshasa requested that its administrative office should make the payments.

document apparently replicating Jeffery Travel's missing aircraft logsheet for November 1 records that an aircraft made two flights to Goma that day, carrying *60 tons of material and

equipment*. The UNHCR said. however: "Airport records and observers on the ground confirm that no such aircraft. left Kinshasa between October 29 and November 2, and further that the Goma airport was closed on November 1."

Absence of certificates: The auditors have raised concerns every year since 1994 that the accountability of implementing partners was weak because audit certificates have not been submitted in good time. By March 1998 no such certifi-1997. The UNHCR denies that this meant it was that the board wants further impossible to know what



Bosnism children peering through a window with plastic sheeting densied by UNHCR fast year

control mechanisms including its staff in the field. It adds that it has taken steps to "ensure a more comprehensive and timely submission of audit certificates". Allegations of fraud:

UNHCR management told the auditors that no cases of fraud and presumptive frauds had come to its notice

how, saying that it has other claimed last year that he mance appraisal system was whistleblower having has been spend on outside reported two frauds. The after investigations have been completed, and that it found no fraud or presumptive fraud when it investigated the former staff mem-

ber's allegations. during the year, although I New systems: the FT learnt that lawyers It says that the FT's state-for one former stall member ment that a staff perfor-

was victimised for being a shelved after more than \$2m consultants is incorrect. The UNHCR's report says that it FT has learnt that the reports fraud cases only UNHCR's Financial Management Information System tem on which it spent more than \$2m, was scrapped last year in favour of a new package after two years of development. The separate Career Management System is

EMERGENCY SUMMIT SOUTHERN AFRICAN STATES APPOINT GROUP TO PROBE CONFLICT

ongo warns Rwanda of war

Leaders of the Democratic Republic of Congo and Rwanda exchanged threats of war at the weekend as mediation efforts by southern African states got seven-nation emergency summit at Victoria Falls, Robert Mugabe, Zimbabwe's president, called for an end to the fighting and announced the appointment of a committee to investigate

the widening conflict. The Congo government last night said that it had launched twin offensives against rebels and Rwandan soldiers in the east and west of the former Zaire and that fighting was taking place on

Tanzania - "will immediately get to work to ensure that... fighting is stopped, that there is a ceasefire".

"We will investigate all under way. At the end of a allegations...but for us the important thing is that the fighting is put to an end," Mr Mugabe said after the meeting, attended by Laurent Kabila, president of sations against Rwanda and Congo, and Rwanda's leader, Pasteur Bizimungu.

But the absence of South to defend the country. Africa, not invited to the meeting, raised doubts about si-led Rwandan government the likely impact of the ini- of masterminding the revolt. tiative. A South African gov- although Rwanda has denied ernment delegation has held the charge. separate talks with Mr . On his return to the Rwan-Rabila in the Southern dan capital, Rigali, Mr Blzi-Congo city of Lubumbashi.

mittee - comprising Zim- Mwenze Kongolo. Congo's babwe, Zambia, Namibia and justice minister, once again called for the withdrawal of Rwanda's troops, which he alleged were supporting anti-Kabila rebels in eastern Congo. Asked what would happen if Rwanda did not withdraw, he said: "Then there will be war."

> Throughout the weekend Congo radio broadcast accuurged young people to join newly created militia units Mr Kabila accuses the Tut-

mungu accused Mr Kabila of

to attack Rwanda and threatened Congo with a preemptive strike. "We will not wait for Congo to attack first," Mr Bizimungu told Associated Press. He said Rwanda had evidence that Mr Kabila had

been training at least 10.000 former Hutu soldiers and militiamen, whom he planned to use against Rwanda. The soldiers and militia

were responsible for the 1994 genocide of more than 500,000 minority Tutsi and politically moderate Hutu. The killing ended when Tutsi-led rebels won power in Rwanda in July 1994, send: ing the former Hutu government across the border into

Taliban claims capture of last Afghanistan city

By Charles Clover in Mascow.

Afghanistan's Moslemfundamentalist Taliban militia says it has captured the northern city of Mazar-i-Sharif, the stronghold of a coalition of ethnic militias which has resisted the Taliban's advance for the last four years.

Iran, which is hostile to the Taliban, accused the group of capturing 11 Tranian diplomats in the city. It demanded their immediate

However, spokesmen for the Alghani resistance say

correct, it would mean the time, it would fundamentally Pakistan.

Sharif, on the road to Kashmir, had been the last city to Kashmir to Iran remain outside its grasp.

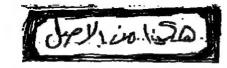
Officials in Pakistan, which has been close to the Taliban in the past, said throughout the region," said their reports indicated that frina Zviagelskaya, a central the group had captured Asia expert at the Russian might not yet have gained Resistance forces still con- before the weekend: trol some strategic passes high in the Hindu-Kush mountains

The Taliban has captured Mazar i-Sharif once before, If the Taliban's reports are retain control of the city this sion between India and

group now controls virtually after the balance of power in all of Afghanistan. Mazari- southern and central Asia. southern and central Asia, affecting flashpoints from

"The seizure of Mazar-i-Sharif will certainly affect the balance of power Mazar-i-Sharif although it Centre for Strategic Research and International complete control of the city. Studies in Moscow, speaking

The fall of Kabul in 1996 cemented an alliance between Russia and Iran to back the northern forces. A further Taliban victory could the Taliban's attack on the in May 1997, but was unable strengthen Pakistan's politicity, was repelled on Satur- to hold on to it. Experts say , cal influence in the southern if the Taliban manages to Asia region, aggravating ten-



NEWS DIGEST

73,000 workers walk out

About 73,000 workers yesterday went on strike at Bell

Attantic, one of the biggest US telephone companies, pos-ing a threat to telephone services in New York, Washing-

the Communication Workers of America, rejected terms for the renewal of their labour contract.

Bell Atlantic provides telephone, cellphone, cable televi-

sion and internet services to more than 27m customers in

13 north-eastern states, it said 22,000-23,000 managers

would be deployed 12 hours a day, six days a week, on work previously done by the striking workers to minimise

Automated telephone calls, which account for the vast majority of traffic handled by Bell Atlantic, should be

customers might have to wait longer than usual for opera-tor or directory assistance, and delays to repairs and new

Bell Atlantic said there was "absolutely no reason" for the strike because the two sides were close to agreement over increased wages and benefits and continued job pro-

taction. The company and union were due to meet again-late yesterday, with the company optimistic that a deal would be reached. Richard Tomkins, New York

Share of exports holds steady

Germany's share of world exports in 1998 looks set to

remain at last year's level of 10 per cent, according to a report published today by the German chambers of industry and commerce (DIHT). The study is compiled from data collected by DIHT representations in 74 countries. German exports last year rose 12.4 per cent. However,

the increase was offset by a 19 per cent rise in the total volume of world trade, leaving Germany with a year-on-year drop of 0.7 percentage points in its share.

The DIHT report pointed out that last year German com-

panies had performed strongly in markets with low growth

rates, while their share in fast-growing markets such as

The bulk of German exports still goes to countries in

per cent in 1996 to 18.1 per cent in 1997, while the US

share of the EU market rose 0.8 percentage points and

Hungary's current account deficit climbed \$520m in June

\$184m or 24 per cent compared with the same period last

the June deficit was boosted by the relatively large monthly outflow of repetrated funds connected to Hungary's increasingly productive manufacturing industries,

which are mostly foreign-owned. These brought the first-

The first-half trade deficit within the current account was \$737m, down \$222m of 23 per cent on the corresponding.

period last year. The central bank out the June figures down to seasonal fluctuations and remains confident that

the target of 2-2.3 per cent of gross domestic product.

HONG KONG LEADERSHIP

Tung's popularity tumbles

The popularity of Hong Kong's leader, Tung Chee-hwa,

has hit a new low, reflecting growing pulic perceptions that

an opinion poli published yesterday.

The poli in the Sunday Morning Post found 56 per cent

of those questioned were satisfied with Mr Tung's perfor-

mance, a 5 percentage point drop since June and part of

a steady downward trend. His popularity peaked at 89 per cent in-October and he was halled as a hero in the months

following Hong Kong's return to communist China after

But then Asia's financial crisis caused the economy

shrink 2.8 per cent in the first quarter of 1998, spawning

A Serb wanted by the international war crimes tribunal was

shot dead by a policerian after an argument at a cafe in central Serbia, police said at the weekend. Slobodan Miljkovic and two other people were shot on Friday night after Miljkovic Insulted an officer's girlfriand, the police said. The

Miljkovic, 36, was indicted by the UN war crimes tribunal

at The Hague for war crimes and crimes against humanity

committed in the north-eastern Bosnian town of Bosanski

Anniversary marked by calm

The 10th anniversary of Burma's violent crackdown on

democracy protesters passed without incident at the weekend as military authorities made conciliatory gestures

towards the opposition National League for Democracy. However, Aung San Suu Kyi, opposition leader, promised

to "do everything we can" to push the ruling junta to con-

Residents of Rangoon, the capital, said Saturday's anniversary of events which led to the deaths of thousands of

protesters was marked by an eerie quiet as many people

stayed indoors. A few small groups gathered at pagodas

In an interview with Britain's Channel Four television, Ms

Suu Kyl said she would continue to "assert her rights... to

and other religious sites and some foreign activists dropped leaflets around town, but nothing threatened to provoke any significant disturbances.

travel anywhere I wish". Ted Bardacke, Bangkok

more than 150 years of British colonial rule.

Indicted Serb shot dead

heavy job cuts. Reuter, Hong Kong

WAR CRIMES TRIBUNAL

policeman was arrested.

Samac in 1992. Agencies, Beigrade

BURMESE CRACKDOWN

vene parliament later this month.

half outflow related to foreign Investment to \$949m; ...

ar. Preliminary figures from the central bank show that

to bring the cumulative six-month total to \$947m, up

Europe, where Germany's market share dropped from 19.1

However, the study attributed these shifts largely to cur-

Chile, Ireland or China had only been 6.5 per cent.

largely unaffected by the strike. But the company said

installations could build up if the strike continued.

the disruption to customers.

GERMAN BUSINESS

China 0.3 percentage points.

against \$645m last year.

Kester Eddy, Budapest

rency fluctuation. Tobias Buck, Bonn

Deficit rises in June

HUNGARIAN CURRENT ACCOUNT.

ton DC, and the rest of the densely populated north-eastern US. The employees walked out after their union.

DISPUTE OVER LABOUR CONTRACT

Bell Atlantic hit as

The same toti i della

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ALGERIAN GAS

Blast hits pipeline

A blast hit an Algerian gas pipeline at the weekend, cutting off the gas flow, the Algerian state-owned oil gas company, Sonatrach, said yesterday, "The blast, followed by a fire... damaged the pipeline over about a 15-metre stretch," it said in a statement. Sonatrach did not say what caused the blast or whether gas exports would be affected. Reuter, Algiers

Survivors tell of massacre in Orahovac

Guy Dinmore pieces together a picture of what may be the worst atrocity in Kosovo since the conflict erupted into war

to survivors - the scene of a

speak of events mired to conroversy. Survivors of the Halveti dervish order – a Shia Moslem sect - scattered in all directions from the sanctuary, known as a tekke, joining an emotios of refugees fleeing a government offensive across the province of Kosovo against

eparatist rebels. By plecing together the testimony of witnesses, a picture has emerged of what may have been the worst strocity in Kosovo since the long-simmering conflict erupted into war five months go. Fighting broke out in Orahovae on July 17. Emboldened by their successes in seizing key roads and villages, fighters of the rural-based Kosovo Liberation Army (KLA) tried for the first time to take over an urban centre.

The town's 20,000 or so eople - an ethnic mix of Albanians, Turks, Moslem Slavs and Serbs - sheltered in their basements.

"On July 20 we ran from our houses and took shelter in the tekke. There were 800 to 1,000 of us, mostly women and children," recounted one Albanian man too scared of reprisals to give his name. The leader of the Halveti

sect in Orahovac, founded some 300 years ago, was Sheh Muhedin, a cleric in his 80s revered as a saint. Baba or "father" Sheh, as he was known, was not a KLA supporter and had tried to preserve the peace in Orathe town's Serb mayor, shot in the back. Baba Sheh told the terri-

Three weeks ago, a relified throng of people at gious sanctuary and around 11am that police had surrounding streets in threatened to enter the Serbia's southern town of tekke if they did not leave. Orahovac were - according His grandson Fatmir and another man agreed to lead massacre of civilians by them out. We thought God would protect us in the Many of those who tekke but Baba Sheh asked escaped are too terrified to us to leave and we believed

survivor explained. "We started moving towards the centre of the town to the [Sunni] mosque. We saw two armoured per sonnel carriers of the police Fatmir went first with another man, their hands raised in the air and asked them not to shoot. But one policeman started to shoot in the air and the crowd turned and fled. The firing went on and at least 15 people were killed at that moment. There were only 50 to 60 men in the crowd and the police targeted them," he said.

The side of the town's main square close to the takke is riddled with bullet holes. A nearby Sunni mosque is also heavily dam-The crowd divided. One

group ran back towards the tekke. A second group reached a factory called Spektri H on the northern edge of Orahovac, where more police opened fire.
Finally they reached the

village of Drenoc and were joined by other survivors. about 250 in all. They melted into the woods and hills. Another man described

how the next day he returned to the tekke in search of missing relatives. He said he saw two bodies in the courtyard, the caretaker and an old woman. By the main building there was a large man lying on his stomach. He turned him over it was Baha Sheb. In one hand hovac by negotiating with he held several keys. He was The grandson Fatmir told



shots that killed Baba Sheh. He was told by other witses that police demanded that the old cleric open the wooden lodge where he held religious audiences and, when he turned to do so a sed in black shot

How many people died over those three days has not been confirmed. Killings occurred across the town, in pardens and homes. Fatmir told tournalists that over 200 people died but was too scared to give a full account. A source close to western investigators said the Halveti community had a list of 215 people believed killed, including children. It has not been made public.

him dead with a pistol.

Residents say that on July 21 police and local people cleared the streets of bodies, loading them on trailers for burial. About a dozen were sent to the nearby town of Prizren for burial.

Rumours spread of the massacre and the existence of mass graves. Diplomats were initially sceptical and played down the sketchy reports that could not be substantiated - at the same time as western governments were ignoring the widening Serbian offensive that was destroying the KLA the flight of an estimated 230,000 refugees over the and its dream, unpopular in western capitals, of independence for the Kosovo Albanian majority.

atrocities, the wanton

destruction of villages and

past five months, Richard

Holbrooke, the US envoy.

warned last week that Yugo-

slav President Slobodan Mil-

osevic had increased dramat-

ically the possibility of

western military interven-

tion. Nato exercises are to be

held in neighbouring

Robin Cook, British for-

eign secretary, sand: "If there

is any truth in these horrify

ing accounts lof mass graves

in Orahovac] we must have

a firm and united interna-

US investigators have com-

piled evidence of what hap-

pened in Orahovac and fear

there is a cover-up. The US

and its divided European

allies warned Mr Milosevic

of possible Nato action two

months ago but did nothing.

slaughter of several thou-

sand Bosnian Moslems by

Serb forces in the Bosnian

town of Srebrenica finally

provoked Nato into launch-

ing bombing raids that

quickly ended Bosnia's civil

war. Western diplomats

doubt that history will be

Three years ago the

Kosovo Albanians believe

Albania next week.

tional response."

Colonel Bozidar Filic. police spokesman on an escorted tour of Orahovac. insisted that a total of 58 Albanians had been killed. All were "terrorists" who died in combat. He said 40 of them had been buried individually and properly in the presence of a judge next to the Moslem cemetery. Local people say graves are scattered around the town. Reporters wandering near a vineyard found a pile of earth capped by stones and two smaller mounds. Farmers said a woman and her

"The rumours about mass graves is a product of Albanian terrorist leaders to distract attention from their heavy defeats." Col Filic said. He demanded why no one asked about the fate of the town's Serb population, saying five had been killed and 58 were missing. Kosovo Albanian sources believe the

two children were buried

KLA executed some prisoners in retaliation. Reacting to such reports of

Greece upgrades bank controls

By Kerin Hope

Greece's central bank has announced long-awaited reforms aimed at upgrading internal controls at the country's commercial banks, many of which lack effective systems of risk management.

The Bank of Greece is trying to speed modernisation of the banking system ahead of the euro's launch. Although Greece is not expected to adopt the single currency until 2001, the sector will become exposed to competition from banks in the euro-zone next January.

Commercial banks with assets of more than Dr300hn (\$1bm) are required to set up a risk management unit by the end of this year and to introduce regular internal audits, "We want to ensure that all banks upder our supervision have adequate internal control systems which can help improve operational efficiency, safety and transparency," said Loukas Papademos, central bank

About 15 leading Greek banks will be affected, including several state-controlled banks which bave resisted pressure to improve credit controls and have acquired a large portfolio of doubtful loans.

The reforms are expected to force more banks to adopt international accounting standards in order to meet detailed reporting requirements on their financial position. Only a few Greek banks choose audits by international accounting firms in preference to less rigorous local procedures. The timing of the central bank measures is also related to a wave of consolidation in the banking sector, following the Socialist gov ernment's decision to sell controlled banks under its fast-track privatisation programme. Five banks have changed bands this year as a group of private Greek banks compete aggressively

France Telecom Downturn in Calls

phoneboxes sparks anger

By David Owen in Paris

the territory's battered economy is in free fall, according to A row over public telephone boxes is disturbing France's nummer slumbers.

Touched off by an internal France Telecom letter outlining ways to respond to a quicker-than-expected downturn in telephone box traffic, the apparently parochial affair has revealed many of the tensions

It also gives an insight into France's strong-rooted public service ethic and the extent of the powers of local

The letter from Jean-François Pontal, executive director of France Telecom's general public branch, said phonebox traffic had been falling since the start of the year, "in contrast to the forecast of 5 per cent growth which served as the basis of the establishment of the 1998

The downturn had come earlier and more brutally than expected", but was not a surprise in the medium term, given the growing popularity of mobile phones, which, after a slow start, were now used by more than 13 per cent of the French

made of call-cards issued by users," it said. alternative operators which have entered the market pouring oil on troubled since full liberalisation at waters, insisting that no the start of the year.

Under these circumstances, Mr Pontal said, it of phoneboxes - 226,000 at was advisable to "radically the end of last year - is change the way the activity is piloted to maintain the do so. expected level of operating profit". He called for an spotlight on some urgent plan, including a cut in investments, the divestment of some of the staffing levels.

What in some countries reduced demand has local mayor.

from the trade unions into whose hands the letter fell. "Once again the logic of

financial profitability is prevailing, to the detriment of public service and users' interests," trumpeted the pro-Communist CGT in a recent press release. "Phoneboxes in sufficient

number, in all villages, are an essential element in underlying the country's guaranteeing coherent often reluctant embrace of planning and fighting Anglo-American-style capi-anclusion. In this way, the opening of France Telecom's capital... is placing a question mark over the concept of public service which cannot accommodate the current financial logic. "The government's

> The affair gives an insight into France's strong-rooted public service ethic

announcement of the sale of a new tranche of France Telecom's capital can only accentuate the harmful effects of these trends for the company's employees and Increased use is also being the great majority of its

> France Telecom is now "revolution" is on the cards and that the overall number rising and will continue to

The affair has also put the

interesting aspects of the law governing phoneboxes. All communes of fewer sites running the biggest than 1,000 inhabitants must deficits, and a reduction in have at least one. Any reduction of the number of phoneboxes in communes of might appear a fairly routine fewer than 2,000 inhabitants case of adjustment to requires the consent of the **ADVERTISEMENT**

that it has received credit ratings from Thomson Bank Watch, a LIS hased bank credit rating agency. The full text of the rating release is provided below.

NEW RATING ARAB BANK PLC **Bank Watch Ratings**

Arab Bank pic (Amman, Jordan) Inner: seeigned B Short Term: mulgaed TBW-1

The Senior Debt (foreign currency) rating assigned to Arab Bank only covers senior obligations that have been fasued by Arab Bank plc branches located in the United States, United Kingdom, and France.

Thomson BankWatch is pleased to announce the assignment of new ratings for Arab Bank PLC. The rating exercise for Arab Bank was indeed unique as the legal structure of the bank is unlike anything previously seen, even when compared to developed markets. While typically it is unusual to split a rating as such. the very nature of the legal structure of Arab Bank necessitates such an action.

Arab Bank PLC can lay claim to one of the longest and decidedly the most distinguished histories of any bank in the Middle East region. The bank's origin pre-dates World War II and has continued on during periods of regional turmoil and strife that would have severely tested and destroyed the resolve of many institutions not just regionally but globally, if similar circumstances were applied. During all of these periods, the bank has not just weathered each crisis, but in every case benefited and emerged even stronger. Arab Bank can be described in at least two ways. The first way, the bank is clearly a survivor. The second way is that the bank's own name can be a misnomer, especially from risk profile perspective. While the bank is headquartered in Amman Jordan, the overall country risk profile resembles some of the best banks domiciled in both Western Europe and the United States. The bank brings with it, a long history and a philosophy that its customers are indeed "first and most important". It is this philosophy that has created the bank that exists today and that can lay claim to be a peer bank when compared to some of the best banks in the world. This philosophy has also moved Arab Bank into being one of the only true "flight to quality" banks in the Middle East. Arab Bank is diversified over a broad geography where operations comprising more than 80% of consolidated activities are conducted outside of Jordan. The unique capital structure enables the bank ratings to be considered independent of any sovereign rating for the country in which the Arab Bank is headquartered. Further there are sufficient legal precedents and opinions which indicate that any potential extraterritorial seizure of Arab Bank external assets by local regulatory authorities is highly unlikely and not valid under most if not all legal jurisdictions. Accordingly, as the vast

of Jordan thereby greatly diminishing the element of transfer risk and as a hard currency (US Dollar) is the functional currency for Arab Bank, Thomson BankWatch employs the global ratings scale for the Arab Bank rating.

Asset quality is extremely solid given the history of expertise cultivated and applied to lending. Additionally, a conservative level of loan loss reserves is maintained to fully cover nonperforming loans. The tenor of the loan portfolio is quite short with 80% scheduled to mature within one year as of YR97. Total loans for Arab Bank typically represent less than 50% of assets. The stability of earnings is enhanced by the

conservative asset/liability management as well as the lending strategy and geographic diversification. Also supporting the sound financial position is a healthy capital base with the BIS Tier I ratio exceeding 12% and shareholders' equity to assets of nearly 9%.

Arab Bank is well established and dynamic, as demonstrated in its sound performance and impressive perseverance. Management has planned for any potential disruption in the Arab region by building capital in its branches in some of the world's major financial centres. Even in the unlikely event of a regional difficulty affecting more than Jordan, Arab Bank has more than sufficient asset liquidity to repay all foreign currency obligations. As Arab Bank has several sizable subsidiaries, affiliates, and an extensive network of international branches, the bulk of consolidated equity is housed outside of Jordan, Management has coordinated the broad geography of banking operations through the hubs in Amman, London and Geneva.

The underlying strategy has been a focus on serving Arab communities worldwide, particularly through trade finance both on and off of the balance sheet. Credit quality is solid, as are loan loss reserves and capital. Management prefers to maintain a high degree of liquidity mainly in conservative inter-bank placements and government securities. Consequently, returns have been modestly lower than those of diversified international banks. Management's successful and well developed strategy provides the foundation for the continued sound expansion of operations.

majority of Tier 1 capital, and assets are outside O1998 Thomson BankWatch, Inc. BankWatch is a registered trademark used herein under license by Thomson BankWatch, Inc.

India warned of deficit danger

India that its high public deficit was about 6 per cent the country's macroeco- one of the largest in the nomic stability and acting as

In its annual report on India's economy, published June projected a deficit of 5.6 in New Delhi, the World Bank said India urgently needs to cut subsidies and broaden its tax base "to reduce the risk of macrosconomic instability" and increase resources for rapid.

High fiscal deficits absorb

and hinder financial sector position" due to their excesreform," the report says. During the last fiscal year, India's central government of gross domestic product,

world. Though the budget nnounced by Yashwant Sinha, finance minister, in per cent of GDP, the bank says that subsequent adjustments, including a rollback in a proposed import tariff, will reduce projected revenues by 0.2 per cent of GDP. leaving the deficit at 5.8 per

The report also says funding from the private sector, threaten macro-stability increasingly unsustainable

sive subsidies on items such as power to farmers, and this "increasingly" threatens the provision of the social and physical infrastructure needed for development.

In the last seven years. spending by states on social infrastructure has dropped by 0.4 per cent of GDP. The report urges India to eliminate non-merit subsidies, realign public spending towards such core public sector activities as mass education and health, rural roads and urban infrastructure, leaving other areas to the private sector within a competitive and sound regu-

latory framework.

It also calls on New Delhi tion of both internal and to proceed with privatisation external markets. and reduce trade barriers. While India's external position was comfortable in After growing an average of the last year, the bank 7 per cent for three years. India's GDP saw its growth slowing to 5 per cent in

1997-98. The report blames

this on the slowdown in the

pace of liberalisation since

While India's initial liber-

alisation between 1991-93

triggered a growth spurt

through "improvements in

resource allocation and

reduction in costs", the bank

suggests that benefits from the initial reforms have now

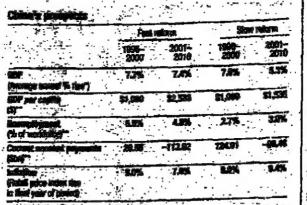
been exhausted and further

improvements will only

come with further liberalisa-

warms of growing pressure on balance of payments. In 1997-98, the current account deficit rose to an estimated \$6.2bn, or 1.6 per cent of GDP, up from \$4.4bn or 1.2 per cent of GDP, in 1995-97. The bank projects that the rise further to 2.5 per cent of GDP by 1999-2000.

The bank says India's foreign exchange reserves, which were \$26.3bn at the end of March 1998, will fall to \$22.6bm in the current fiscal year.



China faces quandary over speed of reform

By Peter Montage Editor, in London

China's economic growth rate would be little affected in the short turn if the country slows the pace of eco-nomic reform now, but it would lag badly in the first decade of the next century. leaving the economy expanding well below the level needed to provide the higher living standards for which

the government is hoping. This is the main conclusion of a study by the Economist Intelligence Unit (KIU), which looks at the mediumterm consequences of the policy options facing the

e authorities. If China keeps reform on a fast track, restructures its state enterprises and banking system, allows a marketoriented monetary policy and joins the World Trade Organisation, its growth will average 7.4 per cent between 2001 and 2010.

But if reform slows, bank lending continues to be subect to policy directive and of state enterprises, growth will average only 5.8 per cent after the millennium according to the report.

The result would be a standards, the EIU says. Under the fast-track scenario, per capita gross

domestic product period would be just over \$10,000 on purchasing power parity basis by 2010, roughly equivalent to the Czech Republic in 1995. On a slow track it of central government. than that of Mexico in 1995. The choices facing the Chinese authorities are agonis-

ing, the report suggests, largely because a fast reform track would see unemployment triple to 40m by the end of the century, adding enormously to social and political pressures. Street demonstrations are

already becoming more frequent and disparity between different regions has increased, the EIU says. It expects China to opt for a slower growth track, a forecast lent weight by recent down individual reforms. The fast growth track

longer term as migration from the countryside to the cities picked up at a time when the labour force is set to expand rapidly. Under more cautious

would also mean sharply

higher unemployment in the

lost through enterprise rationalisation, and a reduced bureaucracy would be smaller. Unemployment would be 3 per cent of the workforce in 2010, compared with 4.8 per cent under the fast reform scenario, but it would still be rising and the wages of those in work would be lower. Adding other factors to the equation, such as the impact on the balance of payments and the need to spread wealth evenly through the country, makes

even harder, the report sug-Faster reform would leave foreign capital in the longer run. With a balance of payments deficit of 3.2 per cent

the policy choices appear

A fast reform path would boost growth but may triple jobless to 40m by end 1999

of gross domestic product and large debt repayment obligations, it would face "a sizeable funding challenge marked difference in living by 2010. By contrast, a slow reform track could increase the disparity between the rich coastal provinces and the poorer inland ones in the long run because the coasta provinces would initiate some reforms themselves, which would reduce the grip

sions facing the .Chinese authorities in the context of uncertainty over the longer term future of the ruling Chinese Communist party

The party is not likely to face direct challenge to its rule before 2010, it says, but the tectonic changes that result from the creation of a more complicated and open social and economic system will be working to undermine the CCP's political monopoly. Many of the younger leadership are aware of this." it says.

There is a possibility that factional struggles may break out as the current generation of political leaders nears retirement. This could also slow or paralyse reform.

China to 2010 by Georgina Wilde, pp124, available from ist Intelligence Unit, ++44(0)171 830 1007, price

Cardoso agrees extensive labour reforms

By Gooff Dyer in São Panio

The Brazilian government has announced an extensive reform of the country's abour laws in an attempt to halt rising unemployment. an increasingly important issue in the campaign for general elections in October. The package is designed to introduce greater flexibility into working contracts and age employers to make more use of part-time employ-

Fernando Henrique Cardoso, Brazil's president, described the changes as a historic shift away from the 1930s-style corporatism of

existing labour relations.

Brazil's labour legislation was part of a set of "ideas inspired by the fascism of

Mussolini", he said. According to the official statistics, unemployment has risen from 5.9 per cent last October to 7.9 per cent. in part because of the slowdown in the economy caused by the Asian crisis.

A research institute financed by trade unions estimates that the actual number of people out of work is at least twice as

The presidential candidate of the leftwing opposition. Luiz Inácio Lula da Silva. who has promised to create 15m new jobs in four years if elected, described the government's proposals as "pillaging the Brazilian

The government has established a part-time work contract of 25 hours a week, in an attempt to eliminate the legal uncertainties surrounding this area of employment. Mr Edward Amadeo, the labour minister, said the measure was aimed specifically at women and young people, the two parts of the working population which were growing fastest.

Other measures include increasing the period that malovees can be temporarily laid-off to six months and extending the period during which employers can compensate for compulsory over

The government has also suggested a number of further reforms, including breaches of labour law, the abolition of compulsory contributions to unions and allowing workers to join the union of their choice. Mr Amadeo also announced increased incentives for youth training.

Fiesp, the powerful São said the measures would have some impact on the unemployment level. However the only real solution to the problem was to achieve annual economic growth rates of around 6 per cent a

The Workers' Confederation (CUT), the largest trade union organisation, said the measures would not generate jobs, but would reduce the rights enjoyed by work-

The confederation warned that employers might use the new rules to force current full-time staff into part-time contracts.

Chinese floods force 14m to flee homes

By James Harding in Beljing

China yesterday took its most aggressive steps so far to ease the threat of flooding in the industrial city of Wuhan, blowing up dikes upstream on the Yangtze river in order to protect the

The decision to destroy secondary dikes; and inundate an area that was home to about 50,000 people, is the latest of China's increasingly desperate efforts to cope with the worst seasonal flooding in more than 40

Torrential summer rains have raised the water level on the Yangtze to its highest mark since 1954, when floods killed 30,000 people and affected the lives of As the water has seeped

through river walls and over the banks of connecting terways, more than 2,000 people have already died in this year's flooding and 13.8m people have been forced to leave their

More than 2m people,



A distraught man rows a boat past his Hunan village, under water for six weeks

including large numbers of military personnel as well as civilians, are now involved in the efforts to reinforce the dikes along the Yangtze.

increasing participation from international aid organisations as well as pledges of bilateral assistance. Over the veekend, a number of international leaders conveyed their condolances to President Jiang Zemin. The US is expected to deliver a shipment of

humanitarian relief

today. Flood prevention officials yesterday hoped the destruction of the dikes would divert 800m cubic metres of water and lower the level of the river by more than 10cm, reducing the threat of flooding in Wuhan. More than half a million people have already been

equipment in central China.

relocated in central China in case the government decides that more substantial diles need to be destroyed and larger areas must be inundated in order to soare Wuhan and the

However, in some areas, the official Xinhua news agency reported, Chinese fficials were unable to destroy dikes over the ekend "because some to move". The flooding also looks likely to act as a further drag on China's already slowing economy,

communities on the lower

reaches of the Yangtze.

damaging agricultural production as well as output: along the Yangtze valley. According to official estimates, the lives of more

The economic damage stimated to be well in excess of \$5bn and

than 240m people have

flooding and summer

been affected by this year's

from the flooding is already economists suggest that it will prove a further obstacle to China's achieving its 8 per cent growth target for

There are also growing concerns about the threat of epidemic illnesses in areas that have now been inundated for several weeks

INTERNET RUN ON SUGAR, FLOUR AND RICE AFTER REPORT OF RACIAL UNREST FOLLOWING INDONESIAN ANGER

Malaysian race rumours spark fears

By Sheila McNulty ip Kuala Lumpur

Rumours on the internet of a prompted a race-based ecoresurgence of racial unrest in Malaysia sparked a weekend run on sugar, flour and rice. Some businesses also sent workers home and

Abdul Rahim Noor, inspector-general of police, dis- struggling to pay debts and lation and rumour but addition, in an effort to help expressed surprise at the extent of the panic.

The 1969 street clashes pit- policy.

ted the ethnic Malays, a

As the Annual Gar

much of the wealth. They nomic policy which since Malays economic parity. But the recent economic

crisis has undermined these Both ethnic groups are keep businesses running. In

revive the economy, which is expected to contract more "This clearly shows that than 5 per cent this year, the the racial clashes in 1969 are authorities have rolled back still lingering in people's Malay equity quotas, the cornerstone of the race-based

Many suspect the rumours majority but historically were aimed at foiling the

occause the financial report was not ave ided to postpone the Annual General Me embourg, 47 Boulevard Royal to delibe

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Precentation of the reports of the Board of Directors and of the Auditor.
 Approval of the balance stacet, profit and loss accounts as of March 31, 1996 and 3. Discharge to be granted to the Directors and to the Auditor for the linended year ended March 31, 1996.

4. Action on nomination for the electron of Directions and Auditor for the ensuring year.
5. Any other business which may be properly brought before the meeting.
The chamboliders are advised that no quorum for the terms of the agenda is required, and that the decisions will be taken at the majority vote of the shares present or represented at the Meeting. Each share is entitled to one vote. A chareholder may act

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Action on nomination for the election of the

Société d'Investissement à Capital Ve à Compartiments Multiples

poorer, against the large Chi-government decision not to has been deporting them by nese minority, which holds extend work permits for the thousands. many foreigners when they expire on August 15. The majority of Malaysia's

then has sought to give 2m foreign workers are Indoline, the capital has been rife with rumours that Indonesians .had stocked up on

machetes and planned to incite riots to keep from being repatriated. ions between Indonesians and Malaysians have been high since the regional financial crisis resulted in

an influx of illegal Indonesian immigrants seeking Several months ago immi-

grants in a deportation camp attacked Malaysian police with swords carved from fence posts and barbed-wire-In the run-up to the dead- covered spears to protest against deportation, provoking a confrontation in which one corporal was killed, 27 policemen were injured, and eight immigrants died.

While some suspect the authorities will relent for fear of a second flare-up so close to the September 11-21 Commonwealth Games, the authorities maintain they will proceed with deportations. Malaysian forces have enough jobs for them and, streets of the capital to pre-

to incite riots by pitting Malaysians against one

On Friday users were unable to log on to Jaring, the Malaysian internet service provider, for much of the day. Many suspected the

authorities had blocked access to limit the spread of the rumours, but that could Mahathir Mohamad, the Malaysian prime minister,

warned such rumours would persist: "This will happen more often, of course, ble people who will deliber-Malaysia does not have been in evidence on the ately incite unrest in Malay-

reform the number of jobs Mexican opposition takes aim at

country's crony capitalism Henry Tricks explains why the long love affair between government and big business

is coming under fire during the political battle over the country's \$65bn bank bailout In the raging debate over have blocked Mr Zedillo's (PRD) issued a list last week promises this week to reveal

the long love affair between government and big busi-

During almost seven decades in power, the ruling Institutional Revolutionary party (PRI) has cultivated ties with the business elite and stonewalled oppositionled corruption probes.

Last year, opposition parties won their first ever majority in the Lower House of Congress and the moment President Ernesto Zedillo ing political campaigns. sent them a financial reform year rescue of the banking system, they scented blood. With their eye on presi-

the \$650n cost of Mexico's proposals, demanding of some well-known business bank ballout, the opposi- accountability for the rescue names whose debts it said tion is taking aim at one of effort, , whose estimated cost had been transferred the most exposed flanks of is 14.5 per cent of gross from the banks after Mexico's political system: domestic product. But the government has refused to release to legislators the names of those whose debts it proposes consolidating on

debate has farmed the popular perception of "crony capitalism" in the upper eche lons of Mexico's political system: that the government helps its corporate friends while big business acts as a cheque-writing machine dur-

"I think it is a knife to Fobapros. package in March that open wide this long associaincluded asking taxpayers to tion between government revelations were riddled no option but to pass on shoulder the cost of a three- and business," says Rogelio with inaccuracies and even bank loans to Fobapros. Ramírez de la O, an economic consultant Reading the political dential elections in 2000, the winds, the leftwing Party of

two main opposition parties the Democratic Revolution

Mexico's 1995 economic crisis to an emergency deposit

The two main Partly as a result, the opposition parties have blocked Mr Zedillo's

reform proposals

the PRD admitted there was which guarantees 100 per no evidence to suggest any cent of deposits. He said 14

But the unrepentant PRD

more names, including gov-ernment and PRI officials it also wants to tar with the "The bottom line is that

big business and govern-ment officials reached an agreement at the highest levels to pass their losses outo taxpayers," said Dolores Padierna, a PRD deputy. On August 30, the PRD plans a plebiscite asking

Mexicans for their verdict on the cost of the bailout. "It's like asking people whether they prefer lower or higher taxes. The answer's obvious," an analyst said.

But José Angel Gurria, the finance minister, defends the rescue, saying Mexico had wrongdoing had taken place. of 19 banks that existed before the crisis ended under

"The aim of Fobaproa was or bankers. It was to ensure there was no generalised col-lapse of the Mexican banking system, to protect depositors and to protect the economy," he said. The finance ministry says that because of bank secrecy

laws it can only provide the names of Fobaproa debtors to a finance oversight committee in Congress or to private auditors who will not divulge them. Mr Gurria said there were criminal investigations

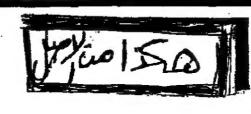
against 40 bank officials. Last week, in collaboration with Mexican authorities, Swiss police arrested Gerardo De Prevoisin, former head of the airline Aeromexico, wanted in Mexico for a \$57m alleged fraud. The airline also has debts held by Mr De Prevoisin once told

a US court Aeroméxico paid \$3m to the PRI for the 1994 condition of doing business. Analysts suspect the government has barely collection efforts sloppier. scratched the surface in Some point to the US bail-



was discovered in half of almost 500 thrifts seized. Paribas in New York, said he was appalled by bad banking practices overlooked by Fob aproa, when he was working on the clean-up of inverlat, a Mexican bank bought by Canada's Bank of Nova Scotia. He said banks would presidential elections as a only be hit by a part of the losses on loans transferred to Fobaproa, which makes

"There's an inherent conhunting out misconduct. flict in the collection of these loans because of the cosy out of its Savings and Loans relationships between the institutions in the 1980s, in banks and the businesswhich criminal misconduct men. "he said.



1 Irelai oner reles

media companies over gramme makers had guaran-

and satellite channels are broadcasters that their pro-

Flextech, the UK pay tele- at least 80 per cent of sub-

vision group, and the Sci-Fi scribers, often as part of a

controlled by Universal Stu-

dies, the Hollywood studio, ordered television groups to

stood to argue in papers have asked the ITC for more

expected to be lodged at the details about the kind of con-

High Court this afternoon tracts that would be permit-

Fears voiced

over N Ireland

prisoner release

Loyalist Volunteer Force, stream IRA and breakaway

The Independent Television

Commission, the television

watchdog, is today expected

to face legal action from two

changes to the way cable

Channel Europe, a channel

will file for a judicial review

The companies are under-

The UK government was

yesterday accused by pro-

British unionists of encour-

aging Northern Ireland ter-

rorist groups that have not

abandoned violence to

declare ceasefires so they

can benefit from early

release of paramilitary pris-

the only Protestant group

not observing a ceasefire.

said it was announcing a

complete cessation of mili-

tary operations - apparently

in a bid to allow its members

to participate in the acceler-

Separately, a spokesman

for the Irish National Libera-

tion Army - one of three

republican groups opposed

to the Good Friday peace

agreement - said it had

revived contacts with British

officials, triggering specula-

tion that it may be about to

But ministers remain scep-

tical of assurances from first minister in North either group. One official Ireland's new executive.

Independent traders are fighting a government

ated release scheme.

The charge came as the

against the ITC.

CABLE AND SATELLITE TV CHANNEL CONTROLLED BY UNIVERSAL STUDIOS TO JOIN MOVE FOR JUDICIAL REVIEW

in outlawing deals under thought the company peckages of channels.

clarification from the watch-

Universal and Flextech,

which owns channels such

as Living and Bravo, yester-

The ITC said yesterday:

"We are confident we have

come to the correct decision

which is within our remit

The watchdog proposed

the changes to so-called

"minimum carriage require-

ments" after cable operators

and powers."

day declined to comment.

which customers had to sub- decided to launch legal

scribe to large numbers of action after it failed to get

Under previous rules, pro-

tees from cable and satellite

grammes would be carried to

blg package of channels. But

renegotiate these agree-

Flextech is believed to

said former INLA member

from early release

members in prison.

may seek to rejoin the

The government has little

leverage over the "Real

IRA", which has claimed

responsibility for a number

of recent terrorist incidents

but which, as a new organ-

isation, does not have any

links between the main-

groups. Unionists yesterday

expressed dismay that Gerry

Adams, leader of Sinn Fein,

the political wing of the IRA failed to declare the "war" was over at this weekend's

annual Belfast march to

mark the introduction of

without trial - which has

chief Northern Ireland min-

ister, and politicians in the

Irish Republic say such a

statement would help reas-

sure sceptical unionists and

bolster David Trimble, the

Ulster Unionist leader and

first minister in Northern

Mo Mowlam, the UK's

since been abolished.

Confusion persists over

They have alleged that the ruled that it should not have

be watchin

ern Ireland.

atively peacefully.

programme, has been

attacked by the ITC just a

month after broadcasters

were warned to curb "victim

television". The watchdog

been shown before 9pm

when many children could

The ITC's comments, to be

the Broadcasting Standards

Commission lambasted the

Jerry Springer Show, and

other confessional pro-

However, programme pro-

viders such as Flextech and

Universal have argued that,

under the terms of the 1996

Broadcasting Act, the ITC

remit was to regulate con-

tent rather than economic

ITC has acted illegally by

interfering with existing

contracts between program-

mers and cable and satellite

They are also believed to

have expressed concern at

the short period of time for

consultation between April,

operators.

scribed to pay television if when the ITC proposed the

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mentaled forcers

100 mg - party . The (m. 1981 - 1971 -

Bake B is . of the war -STEP 1 Erver - -. . .

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BENERAL TES TOURS OFFICE **Figure** gestütenn 12 Orn for end 5 can

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regulations, which require

course. - Motorists would

have to be wary of importing

into effect regulations allow- a limit of 50 cars of relaxed. ing traders or individuals to any particular model that import unlimited numbers of could be brought in under world and put them through year.
a Single Vehicle-Type At a

"grey" imports were dashed. The SVA rules were first dealer networks. cars without catalytic con- introduced under the former

its. The remaining 10,000 much greater than the inde-independent traders saw "grey" imports are brought pendents claim. cars made and sold through kits.

U-turn that has blocked the prospect of an open market for imported vehicles, says John Griffiths buy imported models for up K prices of new and to have European Union used cars would start to Whole Vehicle Type fall substantially from Approval valid for all memturers' "official" prices. May 1 this year, wrote Jeff ber states, "the new rules Paterson, editor of Glass's will mean that, from May 1,

Car buyers must wait for a tide of 'grey'

Until then, car imports limit rule means a maximum lacking full Vehicle Type of 4,000-5,000 cars can be Approval had been banned, the only exception being per-Guide in the April issue of Britain will no longer be a the motor trade "bible". New closed market for imported sonal imports by individuals car prices in the UK were cars", said the Glass's who had owned and driven "among the highest in the editorial the cars oversess.

such calls, and instead

appears to have hardened

the conditions for such a

declaration, reflecting his

need to placate dissidents.

Meanwhile, the last of the

world", he wrote, but car But Glass's was wrong. In These personal import reg-numerical restrictions lifted buyers could look forward to the run-up to May 1, Gavin ulations lie behind the surge is a measure of their deternew era. Strang, the then transport in the number of "grey" cars
On May 1, the Department minister, performed a U-turn being imported from the On May 1, the Department minister, performed a U-turn being imported from the The High Court is expectof Environment, Transport on a key clause of the SVA Irish Republic, where import ted to respond to the action and the Regions would put regulations. He kept in place rules are much more in the next few days.

Bought mainly in Japan EU directorates charged by independent traders, and with emforcing EU competicars from anywhere in the the SVA regulations each sold on to UK buyers driving tion rules have been perthem briefly on Irish roads, suaded of their claim that At a stroke, independent such cars account for almost the SVA rules infringe EU Approval (SVA) test for just traders' hopes of creating a a third of the expected total rules on the free movement large, thriving and legiti- of 60,000 new and used cars of goods. There were pitfalls, of mate trade in unofficial registered this year but not Manufacturers and francourse. Motorists would "grey" imports were dashed, sold through "official" UK chised dealers are equally

verters from developing Conservative government in are accounted for by dent traders are already countries. But, in most cases, minor changes would help specialist UK carmake them suitable for UK makers that were unable to

would allow them to import alised types of regulation, cars cheaply into the UK. such as certificates of confor Consumers would be able to mity, or under SVA rules According to the 70-member to one-third below manufac- British Independent Motor Traders' Association, the 50

without major incident.

Chris Patten, the former

Hong Kong governor, was in

Londonderry to monitor the

Protestant Apprentice Boys

march as head of the com-

imported under SVA.

The speed with which independent traders bave taken action in the High Court to have the SVA's

mination.

The traders also say the

About 30,000 more of these quo retained. The indepenroads.

Combined with revisions

Combined with revisions

Combined with revisions

To European single market

Approval and were therefore

Approval in the EU country

Combined with revisions

The crash testing rules to buy cars with full insisting that safety, emissions and other complications arising from the "grey" imports of such cars are

TAXATION TRUCK COMPANIES COULD MOVE TO MAINLAND EUROPE-TO AVOID INCREASE

Hauliers warn against duty rise

By David Wighton in London :

move their domicile across vehicle excise duty.

said the government was ahead.... planning to double the duty, which would destroy the competitiveness" of the UK excise duty figure was pure could migrate. He pointed Brown, chancellor of the

members to relocate their preliminary legal advice Some of the proposals put users of an extra film.

relocate to mainland Europe policy paper on transport, pean countries, following the anti-car. to avoid proposed tax which proposed reviewing trend of merchant shipping. increases, the Road Haulage duty rates for trucks to Association warned last reflect the environmental move overseas would be pos- proportionate cost of gov-

damage they cause. ... The industry body said it Mr Norris said French some sort of operating can public transport and protect would advise members to hauliers paid about 2500 tre in the new country and the environment. (\$825) 2 year in duty their vehicles visited it . In June, British hauliers the English Channel if the compared to 53,000 a year for up to six times a year, were already protesting at government went ahead their UK counterparts.

With a planned rise in According to industry estimates with a planned rise in the counterparts.

The advice suggests such a believes it is bearing a dis sible if companies set up ernment efforts to improve

mates, the rate for 40-tome previous Conservative gov- diesel fuel as a result of the Steven Norris, director vehicles could at least dou- ernment, has written to automatic uprating above Steven Nortis, infection, general of the association, ble if the policy proposals go Feter Mandelson, the chief the rate of inflation now trade and industry minister, built into each Budget.

hasinesses outside the UK," about the feasibility of UK forward for the policy paper he said. hauliers re-registering or were watered down by the Thousands of Britain's road The threat follows the gov- "flagging out" their government, which was wor-haulage companies could erment's publication of its operations to other Euro- ried it would appear to be

But the haulage industry

haulage industry.

If this occurs, then this association will have no option but 10 advise our

The association has taken option but 20 advise our that UK duty rates were archequer, brought forward this year's increase, imposing three rises within two years at a cost to vehicle

Senior Regulator set to face court action **NHS** doctors that the ITC acted illegally ted in future. However, it is they were offered smaller changes, and the end of face cut in June, when they were imple- The Jerry Springer Show merit pay the controversial US talk

The government will today announce plans to strip senior National Health Service consultants of their right to lucrative bonuses in a radical shake up of pay published today, come after that will also give patients a say in specialists' solaries. The proposals, to be

announced by Alan Milburn. the health minister, will anger consultants, but are seen by ministers as a necessary measure to appease nursing unions prior to a squeeze on nurses'

pay, in an attempt to slash the annual £101m (\$171.6m) for merit awards to senior due tors. Mr Milburn will unveil plans to replace the existing system with a new body to review consultants' performances and decide whether bonuses should be reduced w withdrawn.

Under the current system once consultants are given a distinction award, which can be worth up to £52,000 annually, they receive it every year until retirement. The government is keen consultants should not see their merit bonus as a right.

The new rules will also give patients' groups some say in which doctors are granted awards, in addition to giving the NHS powers to remove bonuses if consultants are found to perform poorly.

Mr Milburn has ordered that the consultantdominated Advisory Council on Distinction Awards be replaced by a smaller body with an independent chairman and representatives from patients' groups and NHS employers - a move described by the government as "the most radical modern-

Mr Adams has rejected this weekend passed off reforms to policing in Northisation in the pay of consul-Despite a brief riot when a tants for 50 years". Figures for last September

policeman fired shots in the air local community leaders show that 12 per cent of the on both sides acknowledged 25,619 eligible consultants had been given a distinction

NEWS DIGEST RAILWAY PRIVATISATION

Taxpayers 'lost \$1.65bn' in rush to sell companies

Taxpayers lost almost £tbn (\$1.65bn) and former managers of British Rail, the former state railway network, became multi-millionaires as a result of the previous government's rush to privatise the railways, according to an influential committee of MPs.

The cross-party House of Commons public accounts committee has said the quick sale of rolling stock leasing companies by the Conservative government - for £900m less than the notional market value - risked "discrediting

privatisation as a whole". The committee's report, published yesterday, said ministers rushed into privatisation without a proper assessment of the true worth of Britain's railways.

While the sale of BR's rolling stock raised £1.8bn, it was sold 10 months later for \$2.7bn.

Former BR managers at three rolling stock companies made "windfall gains" of between £15m and £33m, the committee says. Liam Halligan, London

'PLOT TO KILL GADAFFI'

Claims dismissed as fantasy

Robin Cook, foreign secretary, yesterday admitted he had investigated allegations of an Mi6 plot to kill Colonel Gadaffi, the Libyan leader, in 1996, but dismissed the

claims as "pure fantasy". He was satisfied that his Conservative predecessor, Sir Malcolm Rifkind, had not authorised an assessmation attempt, nor was there anything to suggest that Mi6 had become involved in such an "escapade

Mr Cook's statement came as the girlfnend of David Shayler, the former MI5 officer behind the claims, broadcast a statement insisting Mr Shayler allegations were true. Under British law, MI6 can legally carry out acts abroad which would be outlawed in Britain, providing they are authorised by the foreign secre-tary. Liam Halligan, London

HISTORIC PROPERTIES

Increase in visitors expected

The opening of Sir Paul McCartney's former home in Liverpool in north-west England, and an exhibition of the life of Diana, Princess of Wales, at Althorp in the Midlands, are expected to help increase the number of visitors to

England's historic properties this year.

Visits to such attractions were almost flat last year at 71m, a 2 per cent increase on 1996, according to the English Tourist Board.

David Quarmby, chairman of the ETB, stressed the importance of reinvigorating existing properties with new attractions and facilities, such as longer opening to attract

The Tower of London, long the most visited of England's historic properties, enjoyed a 3 per cent increase in visitors

to more than 2.6m last year. However Canterbury Cathedral, Windsor Castle and St Paul's Cathedral all experienced a downturn in visitor numbers. There was a 3 per cent rise in visitors to the Roman Baths and Pump Room at Bath, the fifth most-visited property. Scheherazade Daneshkhu, London

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INSIDE @ TRACK

Profile: Noel Forgeard, Airbus Managing Director

Bureaucrat who wants to make four go into one

Michael Skapinker on the French civil servant aiming to turn a cosy partnership into a single business exposed to the rigours of the stock market

its own right.

industry. Airbus has regu-

larly won more than a third

of the international market

half of 1999 looks

for commercial aircraft in

year. Airbus took 42 per cent

more probable

Forgeard does as anaging director of Airbus Industrie, he is unlikely to drop his trousers during negotiations.

That was a ploy once used by Jean Pierson, Mr Forgeard's predecessor, to demonstrate to an airline customer that he could offer no more price discounts. "I have nothing more to give you." Mr Pierson growled.

Mr Forgeard, 51, who became head of the world's second biggest aircraft maker in April, is a strikingly different personality from Mr Pierson.

The bear-like, rugby-loving Mr Pierson used to startle lunch guests in the vast, mirrored dining room at Airbus's Toulouse headquarters declaring Airbus a by pulling his jacket off and single company hurling it on to a distant chair. He would then sit by the beginning down, tuck his tie into his shirt and slap his ever-pres-ent packet of Gitanes on to of next year have the table beside him.

Whether at lunch, or at faded: the second international air shows. Mr Pierson was a master of invective, usually, but not always, directed at Boeing, Airbus's larger US rival.

At the Paris air show last year, Mr Pierson stunned the industry by accusing McDonnell Douglas of deliberately losing a vital US government defence contest to facilitate its takeover by Boeing.

By contrast, the courteous, bird-like Mr Forgeard has so far shunned the limelight. He is giving no interviews until the UK's Farnborough air show next month. Associates report that he keeps his jacket on during lunch, does not smoke and prefers soccer

to rugby. But while his style might strategy is expected to be almost identical to Mr Pier-

mined to build a 550-seat "super jumbo", provisionally called the A3XX, to challenge Boeing's dominance of the large jet market, which it maintains through its 400seat 747. While Boeing says it sees no evidence airlines want a 550-seater, Mr Forgeard is expected to press ahead with plans to build

Above all, both Mr Pierson and Mr Forgeard believe the structure that has served Airbus since its creation in 1970 has had its day. Airbus is a Groupement d'Intérêt

nose, the marble head of an

800-year-old Roman dog. A couple of months earlier

In spite of this success, Mr Pierson concluded that the GIE structure should be scrapped. Its principal draw-Whatever else Noël Economique, which means it back is that Airbus manag-Forgeard does as publishes no accounts and ers have no idea of the consortium's manufacturing makes no profits or losses in

> These accrue to its owners Aerospatiale of France and price for making aircraft Daimler-Benz Aerospace components but do not tell (Dasa) of Germany, which each own 37.9 per cent, Brit-Airbus, or each other, what it costs them to do so. The ish Aerospace, which has 20 four might be producing the per cent, and Casa of Spain. which accounts for 4.2 per a vast profit.

The GIE structure helped four disparate European needed to know what its manufacturers survive and costs were so that it could prosper in the world aircraft cut them where possible even if that meant closing factories and laying off staff. As a single company, Airbus would also be able to demand lower prices from suppliers; at present the four partners make their pur-

ases separately. BAe and Dasa, both privately owned, were quick to concur. Aerospatiale and Casa, which are state-controlled, took longer. But eventually all four agreed to turn Airbus into a single company by next year.

The process is, however, taking longer than expected. The companies have not yet agreed how much their respective factories and research facilities - which recent years, forcing McDon- will become part of the new nell Douglas out of the Airbus - are worth.

Hopes of declaring Airbus In 1994, Airbus won more a single company by the orders than Boeing - the beginning of next year have first time the US group had faded; the second half of 1999 lost the top slot since the looks more probable. Mr Forgeard, in spite of advent of the jet age. Last

his low-key manner, is likely to be even more determined than Mr Pierson to make



sure the change happens. He expects to have the wants to serve two five-year

Not only does Mr Forgeard want Airbus to become a limited company; colleagues say he wants some of its equity to be floated too, even if the four partners retain a controlling stake. He wants

shareholders in the public as Sir Dick Evans, chairman, time to do so. Friends say he arena of the world's stock At first sight, Mr For-

geard's attachment to shareholder value might seem curious. His curriculum vitae (see panel) is that of the quintessential French fonctionnaire, with years of government service behind

But there are two keys to his attachment to the market. The first is the 11-year spell he spent in senior management at Lagardère, the

missiles business.

Airbus to prove its worth to senior BAe executives such Richard Lapthorne, vicechairman, and John Weston,

At GEC, he has dealt with Lord Simpson, managing director, and Lord Weinstock, Lord Simpson's predecessor. He co-operated particularly closely with Lord Weinstock's late son, Simon, who worked hard to persuade GEC executives that they could do business with the French. Mr Forgeard has been less intimate with his German counterparts - a shortcoming he will have to

His focus on shareholder

Mr Pierson pledged that Forgeard is unlikely to abandon this aim, but European

insist that profits come first. If this means taking only 40 per cent of orders - so be it. Airbus spent its first three decades building market share. Mr Forgeard plans



Parting a fool from his money

A heady buzz, rapidly followed by feelings of guilt this is the lot of the impulse buyer Good news for retailers and sales executives everyw Impulse buying is much more widespread than commonly supposed - and often involves more expensive purchases than the clothes, cosmetics and other treats associated with

These findings come in a fascinating paper just published in the Qualitative Market Research Journal" which looks at the growing non of impu buying and discovers it. covers some surprisingly big

Equally encouraging for those at the sharp end of selling, it suggests the growth of direct marketing through channels such as television shopping and electronic commerce could make it easier to part a fool from his money.

The authors describe four patterns of impuls shopping, based on portraits of individual consumers. The first is the "compensatory impulse", exemplified by the shopsholic Linds, aged 25, who has "wardrobes full of clothes she's never worn and shoes bursting out of cupboards still in their

She does it to bolster her self-esteem, the paper reckons. By liberating her selfish, private persona" she escapes the restraints of job, home and family. Then there's Steve, 33.

who just can't resist a pair of football boots in the summer sale – even though the season is still some weeks away. He is a sucker for what the paper calls the desire to snap up a bargain to meet an anticipated

But what about the 35-year-old man who had a row with his wife, drove off to cool down and had bought a house by the time he returned home? Or Winnie. aged 60-65, the empty-nester who went out to buy a spare set of car keys and came back with a new car? "I've always been a very careful shopper," she told her family.

The paper says these two succumbed to the "breakthrough impulse" unplanned one-offs involving high expenditure items such as jewellery and art as well as houses and cars. Often the desire to acquire such items has been building

for some time and the symbolic step forward in life. "At this moment, the heart takes over and they fall in love with their 'new

self represented by the major change," says Geoff Bayley, one of the authors. Some impulse purchases defy explanation, so the a fourth category of "blind

paper helpfully puts them in impulse". They include the 46-year-old flat dweller who bought a cast-iron fireplace nowhere to put it. These brainstorm buys share with other forms of

impulse purchase the burst of adrenalin that comes with an unplanned acquisition. In every case there is a likelihood that the impulse buy will be followed by feelings of guilt - the downer after the high. Some shoppers cope with that guilt by hiding their impulse buys - the

electronic gadgets bought from beguiling salesmen and the bargain CDs snapped up in the sales. Leaving them in the packaging or sticking them at the back of the cupboard is a way of pretending they never happened.

But other rationalisations used by impulse purchasers can be exploited by cumning marketeers. One which is already well-used in advertising is self-reward the indulgence in return for doing the weekly shopping. looking after the children or spoil yourself!"
Another is comparative expenditure - justifying an

mpulse buy by comparing it partner or poer. "He spends his money on his bike/ He, meanwhile, justifies all these fripperies by reference to her spending on clothes. cosmetics and bairdressing

Advertisers have yet to exploit fully this vein. "Have another pint of beer - she'll only spend it on lipstick." looks a promising line.

Playing up to the bargain hunter is already well established, with the "buy one, get one free" appro-(known in marketing circle as bog-off). Selling ludicrously overpriced warranties with white goods is another way of extracting cash from consumers by uppealing to them as rational, economic

Finally, the most subtle way to foster impulse buying is what the paper calls 'over-buying" - letting the stomer take the goods be returned if unsuitable, the wrong size or whatever.

Marks and Spencer, the British retailer, has long realised that letting customers take clothes home to try them on is more likely to result in a sale than. providing a changing room

in the store. Most of these strategies have been adopted to some degree in traditional shops. But several might be easier to implement in the privacy of the consumer's home hence the attractions of direct marketing for those needing to encourage impulse buying.

For example, inhibitions may be eased with home shopping where there are no shoppers to gawp. to be persuaded that a

HAVE NO PEELINGS





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E CHAPPENDE

The second second

the means of

purchase makes good economic sense when they are relaxed at home rather than confronted by a fast-talking salesman.

And it is easier to tempt people into breakthrough impulse purchases if they can be shown the goods - as is possible with catalogues, TV shopping and

None of this will reduce the guilt, however. But perhaps even that is part of the impulse buying buzz the sense of doing something irrational for purely personal pleasure.

*Impulse purchasing: a qualitative exploration of the phenomenon, Geoff Bayley and Cline Nancarrow, Qualitative Market Research Journal, Vol 1(2)

Essential Guide to Noël Forgeard

be different, Mr Forgeard's A perfect French start: Born in Paris in 1946, the new managing director of Airbus Industrie had the classic grooming of a member of France's industrial elite. A moved through several senior civil service

After cutting his teeth at the industry ministry, he became technical adviser in charge of civil aviation at the transport ministry in 1978. Two years later, he was technical adviser in charge of armaments at the ministry of defence. His most senior government role came in the mid-1980s, when he served as industrial adviser to the

then prime minister, Jacques Chirac. Nuts and bolts: Mr Forgeard had a spell in a state-owned industrial company. In the early 1980s, he joined Usinor, the then government-controlled French steel company, where he eventually became president and general manager.

Lucky at Lagardère: After returning to

government service to work for Mr Chirac for 15 months, Mr Forgeard joined the private sector in 1987, as senior vice-president of the Matra defence and and defence group. By 1989, he was Matra's chairman. In 1992, he became

president of Lagardère and chief executive of Matra Hautes Technologies, which combined the group's defence, space and telecommunications activities. Managing director of Airbus: Mr Forgeard was not, initially, the front-runner to succeed Jean Pierson as head of Europe's aircraft-making consortium. The

name most often mentioned for the job was Louis Gallois, the former boss of Aarospatiale, who is now running SNCF, the. French railways. But when the French government insisted on Mr Gallois staying where he was, Mr Forgeard's experience and European - and particularly British aerospace contacts pushed him to the fore.

privately owned French publishing to missiles group, and its Matra defence and leagues report that, after one difference of emphasis four months at Airbus, he from the strategy pursued by still says "we" when refer- Mr Pierson. ring to Lagardère. The second is the role he Airbus would win 50 per

played in forging Lagar- cent of the civil aircraft mardere's joint ventures with ket by the next century. Mr UK companies. With GEC, he helped create Matra Marconi Space. With BAe, he set executives expect him to un the Matra BAe Dynamics

Anglo-Saxon business methods hold no terrors for him. He knows the members of the UK defence and aerospace establishment well, to spend the next decade having worked closely with

Italy endures a renaissance of crime

An art thief walked into the our holiday. The thieves - a professional gang - turned the bouse upside down and Uffizi gallery in Florence the other day and stole, right walked off with four old under a French tourist's

paintings and a pile of

family silver. They also

too had been burgled in

"I thought I would be the

smashed my 12-year-old a Van Gogh and a Cezanne son's piggy bank. The old disappeared from a Rome caretakers, the friendly museum – happily to be boxer, the neighbours heard few weeks ago some A young carabiniere police squatters - a new and officer took three hours to disturbing phenomenon in draw up a meticulous report Italy - vandalised 14th of the theft. When it was all century frescoes in two over at about two in the

Viterbo churches. morning, another The list could go on. "You carabiniere who had visited are now in the street of the scene warned us with a thieves - all stolen stuff", I big grin: "They'll be back. remember the Marchese They usually do and you'd Ferdinando Frescobaldi of better do something about securing the house." The the Tuscan wine dynasty recently saying as we drove insurance man was also down a street in Florence adamant. "You must fit an efficient alarm system to full of antique shops. protect not only your The radio said there were

currently about 1,100 thefts possessions but also your and burglaries a day in family." The next morning Italy," said the technician we moved all the possessions who had come to fit an we cared for out of the alarm system in the small villa I rent in Varese, about Welcome to the "Bel 40 miles north of Milan by Paese" as Italy likes to be called. The alarm technician the foothills of the Swiss

broken into the last night of

very last person to be

Everybody in Italy, it seems, is either robbed or robs for a living. The country's banking ssociation says there are six times more bank robberies in Italy than anywhere else in Europe. Sadly, it is all taken as a bit of a joke.

"If a thief gets caught he will probably do a day in jail if he is unlucky. It's not like your country here," said the

"If you best up a robber in your own property he can sue you," explained the owner of my local cafe whose husband works as a mason. "The other day my hushand was called to repair a drain pipe damaged by a burglar. He fell down and injured himself. He is suing the owner." she said.

An Italian magazine carried an apposite headline this week - "a nation of bandits". For in this torrid. turbulent, Tennessee Williams type of Italian summer, crime has been the theme of the month. People have died of the heat; a Roman housewife went mad and stabbed to death her 27-year-old son sleeping in his room; fatigued by its economic adjustment, the government has also had to tackle a new flood of illegal

immigrants rioting in detention centres and raising the country's Not only frightened old The entire country

has become contaminated by a sort of criminal phobia

ladies locked up in their homes in a semi-deserted Milan, nor tourists robbed of German cars or handbags, but the entire country has become contaminated by a sort of criminal phobia. Old scandals such as the mysterious bombing of an airliner close to Sicily; the on-going political and judicial battle surrounding the thrice-convicted Silvio Berlusconi, media mogul.

Everyone is either robbed or robs for a living in the 'Bel Paese', but it seems to be taken as a bit of a joke former right-wing premier and current leader of the opposition; the pervasive tentacles of organised crime; the corruption of big again come to haunt the country.
One should not be

surprised, the magazine article said. Any decent history book quickly show that the political and social history of the country is a history of crime. "Italy wins the primate when it comes to crime," wrote the patriot Filippo Turati in 1882. "Crime is the real moral disease of Italians", wrote a contemporary Pasquale Turiello, And the 19th century author Cesare Lombrose conducted a scientific study of the creature of God called Italian is essentially a criminal, in the north because of his poor diet and in the south because of the bad air he

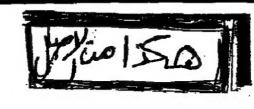
breathes". These historical reflections have little bearing on my burglary. It was an exercise in setting the country's contemporary political and social problems in an

historic context. Yet it also helps explain the disaffection of the man in the street towards the country's politicians, captains of industry, magistrates and law enforcers. Only sport seems to create these days a sense of national unity in Italy. "Otherwise, it's everybody

for himself, I'm afraid," said

an Italian journalist The country is finding the transition from a paternalistic, old-fashioned, family-orientated society to a so-called modern, late 20th century way of life painful. The old values that have helped prop up the country through all its difficulties a Japanese banker once compared Italy to a ship with many holes that never seems to sink – are being systematically undermin for all the fine words of the

politicians. The house I live in was probably the last villa in Varese not to have been robbed. For 45 years, Silvia, the gardener and one of the caretakers, has elept there, shutters and door open. On Sunday night, after the break-in, she locked her door for the first time.



Getting big by staying small

Della Bradshaw on the progress of a one-company school with big ambitions

But Field

business schools start life as a university department, but not all. In Europe, some business schools start life in the corporate world. IMD, in Lausanne, for

example, sprang from the merger of two Swiss schools, one set up by Nestlé, the foods group, the other by Alcan, the packaging concern. And in the Netherlands Nijenrode was set up after the second world war by Dutch companies, including Philips, the electrical products maker, and Unilever. the household products

Both have gone on to reinvent themselves as independent schools with strong rep-

On the French Riviera another business school, Thesens, is hoping to perform a similar trick. Set up in 1989 by France Telecon then the country's publicly owned phone operator, the school was intended to bridge the gap between tech-nical and management Boshyk, executive education skills. It foundered.

The concept, however, is defended vigorously by present-day director general, Ahmet Aykac. "It was a brilliant act of foresight. The fundamental error they made at the time was to put electronics engineers at the head of the school."

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Prof Aykaç is certainly not bleau, and a former student at Columbia University in New York, he was lured to Theseus, built on the Sophia met before they arrived: the Antipolis science park, after school had to change to a row with his bosses at reduce the dependency on thirds of the core faculty of over of FFr27m (£2.69m) The-IMD. The issues clearly still rankle: he quietly describes the problems as "fairly significant differences."

Prof Aykaç joined Theseus in January 1996 and later



as school has little difficulty attracting visiting faculty to its French Riviera site

names from the IMD faculty also defected: Francis Bidault, now deputy director

director; and Mary-Rose Greville, professor of organisational behaviour.

While they are intent on building bigger and bigger institutions he intends to keep Theseus small, using visiting faculty as required in a virtual organisation. It is a strategy which may This "gang of four" listed stand Thesens in good stead the criteria that had to be in the case of recession.

employees now form two

'It was a brilliant act of foresight. The fundamental error they made at the that. A former professor at IMD and insead, in Fontaineat the head of the school'

Telecom had to resist inter- the school. In addition there

that year three other big Theseus from traditional faculty.

Prof Aykaç defends the size of the school. "I don't need an enormous amount of people's time. I need a lot of their attention. To get their attention I have to attract their curiosity. To do that I have to be doing intelligent things, working with good clients. That is the chain we're trying to put

Theseus' client base reads tike a Who's Who of the corporate world: Johnson & Johnson, Volkswagen, IBM and PensiCola International are just a few. French companies, including founder yet to be decided. France Telecom, now account for just 2 per cent of The four former IMD the business.

But with an annual turnone company, and France six - the full-time faculty at sens's business is still very small. Prof Aykaç hopes the fering in the running of the is a group of frequent visi- school will grow by between tors, the affiliated faculty, 30 and 40 per cent a year in But Prof Aykac had a fur- which numbers 14. There are terms of revenue and will today to around 60, this is ther plan to differentiate a further 80 or so visiting add one extra core faculty member a year over each of does intend to grow.

pays to the school to around

the gang of four is the MBA programme. Although it brings in 10 per cent of the revenues, financially it is a "big black hole" says the director general. With plans

the next few years He says the school is now on a sound financial footing. having repaid the funds poured in by France Telecom, and has reduced the subsidy the phone company

income. The plan is for a consortium of some 20 or 25 companies to invest in the school: at the moment France Telecom still owns more than 90 per cent of the shares. But the actual structure of the school, and who those companies will be, has One area of concern for

one area which Prof Aykaç



TIM JACKSON ON THE WEB

A grey area of law

A European Court of Justice ruling will chiefly benefit US internet retailers

rightly defined.

In one area - grey

the principle of free

importing between EU

countries - European law is

movement of goods between

member states. But the

status of grey imports into

Buharian spectacles come

International Schmied, an

Austrian manufacturer of

get rid of 21,000 outmoded

elling them in Bulgaria for

pairs of glass-frames by

Silbouette's dismay, an

entrepreneurial Austrian

liscounter found out about

shapped it straight back to

Austria. It then advertised

that the products were on

sale without Silhouette's

Three years later, the

badly written and

"recent cases" at

European Court of Justice the EU's highest court - has

ruled on the case, albeit in a

obfuscatory judgment (see

Silhouette, and affirms the

principle that a company

European law to prevent

anyone from importing its

product into the EU from

outside and selling it even if

What makes this ruling so

the third party bought the

goods honestly abroad.

inside Europe was

previously much

oolding an EU trademark

verv.curia.cu.int). The

Court's ruling backs

making a bay deal of the fact

the products beavily,

permission.

about \$12 apiece. To

the EU from outside has

long been more murky.

That is where the

in. In 1995, Silhouette

equally vigilant, thanks to

The case of the Bulgarian spectacles sounds more like a Sherlock Holmes mystery than a matter of high concern in the internet and computer businesses. But a ecent court judgment in Luxembourg may change the pricing strategy of companies in the US. European Union and Japan.

The background to the ease is that many companies ing business in Europe and the US maintain higher prices in Europe. Whatever the excuse - the cost of local staff, localisation, or whatever - it is common to see wricing strategies in which the dollar sign has ffectively been scratched out and replaced with a British pound sign. To maintain this pricing

strategy, companies enerally go to imaginativ lengths to stem the tide of grey imports, which arise low-priced country sells products to another company in a higher-priced country. In the computer and software business, the usual method is to refuse technical support to customers who bought in the cheaper market.

Courts are rightly vigilant in the defence of companies that are the victims of out-and-out seams, such as counterfeit Chanel No 5 perfume, or copies of Windows 95 pressed in China. But courts look less favourably on companies trying to keep out of a high-priced market products that they sold themselves in a lower-priced market.

makes it hard for compan to prevent grey importing

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The conservatives in the debate – national courts in a number of countries - have encouraged companies to restrict grey imports when there is a clear quality or cost difference between the branded product sold outside

the EU and inside. The liberal end of the spectrum, largely occupied by intellectual-property academics, says that ompanies should not be able to stop parallel imports even in such cases.

to the right. By blessing market segmentation between the EU and the US even when there is no quality difference, this roling will have big effects in the computer, software, internet and entertainment industries.

But the judgment may have a more immediate effect: US online mail-order retailers will be able to sell things straight to European price difference between the

markets. That is already an issue in the books trade, where publishers buying UK rights are discovering to their borror that British customers can have books shipped from the US and

still save money. The good news is that the internet will help mitigate damage to European consumers from having to pay more for a wide range of goods.The bad news is that the long-term beneficiaries of the Silhouette judgment will not be the European companies that the European Court sought to protect, but US interpet retailers already abead in a fast-growing market.

tim.jackson@pobox.com

POTTED THEORIES MANAGEMENT

Corporate thought

Richard Donkin on the influence of management writer Peter Drucker

Management is not a tasks, taking responsibility over other employees, business goals and the imporised work has emerged from tance of planning, Mr word itself has late 16th cen- for the big corporation.

tury origins. But it was arguably not ment (1954), he set down the outline the role of management at the beginning of the regarded as a set of definable skills used in the planning and control of a business.

If Mr Fayol put corporate management on the map in his own country - his work English until 1949 – its role in the modern company and gist, and visionary. These post second world war evolu-1946, a study of General scale.

Motors. some important general of the company, moving principles of management, from systems-based manageincluding the division of ment requiring managers to they were managing."

the enterprise.

agement, 1954.

participantsi will also be

given help in gathering

and in setting up initial contacts there. The

programme will be run by

the Language Centre at

MBS.

market data from overseas





















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LBS recruitment gets under way Kenneth Smith, presently

director of communications at Insead, in Fontainebleau, has become the first big staff appointment for London Business School's new dean John Quelch, lately of Harvard.

Mr Smith will be associate dean for corporate strategy at LBS, where he will help Prof Quelch devise and promote the LBS brand. He will take up the job on September 1.

 Elsewhere in Insead, Daniel Muzyka, professor of entrepreneurship, has completed his three-year term as associate dean for the MBA programme and has been replaced by fellow American Landis Gabel, Prof. Muzyka will devote more of

Prof Gabel in turn will be associate dean for insead's LBS:www.lbs.ac.uk

The aim of the project,

his time to the 3i Venturelab, I is to help companies with

set up as a partnership between the nearby University of Luton and Aylesbury College. Vocational and professional courses as well as degree programmes will be offered. Aylesbüry Business School:

was not translated into ting the role to that of educator, communicator, strate-

century that it came to be Responsibilities, Practices introduced the concept of (1973). These were to set management by objectives. objectives, to organise, to motivate and communicate, ing and thinking have been to measure and to develop so prolific and insightful people. In outlining these there seem few areas of modfunctions he was also eleva- ern management and busiqualities would prove invented management or

While Mr Fayol outlined evolving with the demands

tion was more broadly beyond the reach of many have even discovered it but defined by Peter Drucker in administration-focused man- he did explain it in a way a series of ground breaking agers, but without them, be that managers could underworks beginning with Con- argued, a company could not stand, shedding light on cept of the Corporation in compete on a worldwide what he described as a "dark Mr Drucker's thinking was



director. replaced as associate dean for research by Belgian Luc van Wassenhove, Gabriel Hawawini has become the PhD programme... Inseed: www.inseed.fr. -

advice

Free help is now on offer from Manchester Business School to small companies In the north west of England which want to expand

fully funded by the European Regional Development Fund.

information for News from Comput should be sent to Delle Brad The Pinancial Times, One Southwark Bridge, Lordon S21 914L

eral principles, to directing As a prolific source of ment ideas, the Austrian-born Mr Drucker has become the archetypal manprehistoric times and the Drucker refined the function agement gura, though he prefers to think of himself as for the big corporation.

In The Practice of Managea writer and journalist.

Unlike many other gurus

until Henri Fayol, a French hasic tasks of the manager, he is not credited with a spe-mining engineer, began to reducing them to five fundactific revolutionary theory, mental functions in a later although he coined the term work, Management: Tasks, knowledge management and On the other hand his writness that have escaped his influence.

Mr Drucker may not have have even discovered it but continent."



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Book: The Practice of Man-Quote: "Before world war II most managers did not know



m.djeddour@fs2.mbs.ac.uk Aylesbury joins the market .

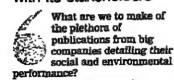
The market town of Aylesbury, Buckinghamshire, is to get its own business school. The school has been



ENVIRONMENT VIEWPOINTS NICK MAYHEW

Trouble with the triple bottom line

A fundamental confusion about different kinds of value lies at the root of Shell Group's difficulties with its stakeholders



At Oikos, a UK research organisation, we have been trying to digest the contents of about 25 such publications. We have been considering whether they stand up to rigorous analysis, and whether they indicate genuine progress towards sustainable development. We have also been xamining how likely they are to reduce risk and facilitate future

business activity. Recently, Shell's output and accompanying activity in this area have made for especially fascinating analysis, particularly as the company is reckoned by some to be setting benchmarks for others to follow. In April, Royal Dutch/Shell Group produced the pioneering Shell Report 1998, subtitled Profits and Principles - Does There Have to

be a Choice? This report, it states, is "about values. It describes how we, the people, companies and businesse that make up the Shell Group, are striving to live up to our responsibilities - financial, social and environmental." These are the three dimensions of the so-called "triple bottom line" of sustainable development, against which all companies will soon be expected to account for their activities.

The following month, Shell UK published its own, derivative Report to Society. Then, last month, Royal Dutch/Shell Group published its first, externally verified health, safety and environment report, involving an audit contract worth £1.5m.

On the one hand, then, we have Shell telling us of its "commitment to sustainable development", of its wish to be "good corporate citizens", and of its "concern for human rights...[and] the impacts of potential climate change". The company trumpets its five-year. £300m investment in renewable energy projects.

But on the other hand, the company's core business clearly remains the exploitation and sale of fossil fuels: a business regarded by many as ecologically perilous and socially destructive. Until last month, when Shell (and Mobil) withdrew because of disagreements with the Peruvian envernment about infrastructure provision, the company had been trying to secure the development of the Camisea jungle hydrocarbons deposit, one of the

world's largest gas fields. Indeed it was using the "stakeholder consultation" processes promised in its reports to smooth access to "protected" Amazonian rainforest, home to uniquely diverse populations of indigenous peoples. So how should we interpret

such developments? On a positive note, it is clear that Shell is serious about responding to the increasing demand for greater corporate accountability. The company has even set up a four-person Social Accountability Team to distribute this agenda internally. Such signs of tangible institutional change deserve praise and encouragement.

However, one is tempted to ask whether all this work represents an especially sophisticated way for Shell to repair its battere corporate reputation, justify the continuation of its core business-as-usual, and ranew its "licence to operate". Shell's problem is that it has not yet managed to set up a rigorous process by which it can claim to be interacting meaningfully with its stakeholders. The suspicion lingers that it is more interested in using stakeholder consultation for "issue management" purposes than for genuinely understanding the impact of its activities and perhaps changing its

When Oikos participated in the "stakeholder dialogue" on the proposed Camisea development, for instance, time was very limited, the processes inadequate and at no point was the company willing seriously to consider the view that it should not be there

Instead, Shell has defined its responsibilities by reference to its own "values" and quite incoherent "principles". So Shell's "core values [of] honesty. integrity and respect for people' appear to translate into "busines principles" including "winning and maintaining customers" and "supporting free enterprise"!

Shell says that while one of its responsibilities is "to give proper regard to ... the environment stent with its commitment to sustainable development". another is "to protect

shareholders' investment". But who defines "proper regard"? Presumably, there are hard choices to be made between principles and some forms of profit-making. Shell must surely inderstand this.

Part of the trouble lies in Shell's adoption of the concept of "the triple bottom line," as promoted by John Elkington and his environmental consultancy, SustainAbility. Although its promotion of three-dimensional accountability is important, the concept misleads companies into thinking that by somehow aggregating economic, social and environmental "value-added". they can claim both

responsibility and sustainability The delusion is that they compensate for the "value" they are subtracting from one bottom line - the environmental, say by "adding value" to another bottom line" - for example the economic - even though the two forms of value are of a very different nature.

Shell should focus on coming up with meaningful stakeholder dialogue processes that would allow these different forms of value to be properly realised. compared and prioritised, with responsibilities recognised accordingly. Instead, it is concentrating on devising what Sustain Ability (in collaboration with Arthur D. Little) calls "a range of total net value added

The problem with such technocracy is that it obfuscates rather than clarifles. The metrics may provide some semblance of rationality to empower corporate decision-making in the short term, but it is likely to alienate rather than include many stakeholders. This approach will therefore do little to bring about a more consensual way of working or to minimise risk.

The author is director of Oikos, a not-for-profit organisation core-funded by the Joseph Roumtree Charitable Trust. This article is drawn from a longer Oikos paper about Shell's efforts in this field, to be published



Spin off the company halo

People are not fooled by positive PR. They want the bad news as well as the good ...

Why are society magazines such as Hello! and People so hugely popular, while corporate social brochures lie around unread? Both have lots of nictures with people wearing hastly "Tve-just-met-a-royal" grins. There's plenty of positive ra-ra-ra and the underlying ges are identical: we are beautiful, perfect and oh so

caring. While society magazines sell millions, company publications telling of community and charity work are spurned as corporate trash. Why?

The answer is spin - the way facts are rearranged to present a story in the best possible light. Readers love the positive spin put on the stories of minor royals and fading celebrities as they "talk openly" of their wonderful marriages and "graciously open the doors" of their palatial homes. Readers know it is a load of nonsense, but it is a bit like eating chocolate - great fun and nobody gets hurt.

The same readers, though, are highly suspicious of the slant put on corporate stories about the good work companies do in the community. Readers heavily discount anything a company says on the issue. They realise they are getting only one side of the story, and want to hear the bad news as well as the good.

There are sound reasons for this. We are losing our respect for traditional authorities and social structures. Large companies are being called on to act as moral entities, to uphold codes of conduct and to take on social responsibilities in return for the freedoms they enjoy.

But consumers know too that companies, like priests and government ministers, are never perfect. They face dilemmas and often act in error. By far the biggest mistake companies can make is to wear a halo; yet judging by the quality of corporate publications, many make a habit of it.

begun to modify the way they communicate, especially about their social responsibilities. They have shaken off the halo and reduced the spin.

Take the Shell Report. It was well received mainly because it human rights, bribery and corruption. Publishin information - including the number of people fired for taking bribes - is embarrassing but honesty gains good marks from

the public. The Shell Report is the first of its kind from such a big. mainstream multimation marks the beginning of not only new form of mon-fine reporting, but - more important a decline in the amount of corporate spin in company

Take the case of Monsanto, the biotechnology company. It bedly misjudged the European concern about genetically modified foods. European politicians and

consumers were outraged that modified soya beans were being introduced into processed foods without buyers being told about it on the label. Food companies have become concerned about consumer resistance, legislation has been mooted and many are calling for a moratorium on such research.

After a long stience, Monsanto apologised. Then in a series of advertisements it set about telling its story, especially its belief that genetically modified foods are harmless and are needed to feed the world's growing population

Its carefully crafted campaign is a fine demonstration of modified spin. The company admits there is a big and important debate surrounding the issue and its view is not the only one. It encourages readen to find out about other viewpoints and publishes the telephone number or web sites of environmental groups such as Greenpeace and Friends of the Earth.

It demonstrates a fresh openness and a move away from the discredited public relations approach of ignoring the negative and only ever emphasising the positive.

Other companies are preparing to follow Shell's lead, and social reporting is set to become a regular activity. The public is far too knowledgeable and increasingly intolerant of shoddy spin to put up with open, clear reporting of both good and bad news. Company spin

Peter Knight is a specialist writer on business and the environment.

doctors, be warned.

BUSINESS TRAVEL LUGGAGE ALLOWANCES Rarely a jolly bagman

Lost baggage and confusing carry-on rules have exasperated travellers and lead to clashes with airlines. Amon Cohen weighs the issues

Hold on to your luggage at European airports. The smashing of a baggage-thieving ring at London Heathrow last month means another continental airport can expect shortly to be receiving the attentions of those gang members not caught

"We are pretty hopeful we have put an end to it at Heathrow, but we won't have all of them," said the Metropolitan Police, which made more than a dozen arrests. "They move around from airport

Organised crime apart, increasingly crowded aircraft and airports make it ever less certain that business travellers will arrive at their destination with luggage intact.

There are also more arguments between passengers and airlines about what may be carried as hand luggage. Between April and June, baggage accounted for 47.8 per cent of all complaints received by the International Airline Passengers Association.

Problems with bold luggage and confrontations over hand baggage are directly linked. "I can understand the safety reasons for restricting the luggage that people can take on board, and I have seen people trying to carry on large suitcases," says Mike Bor, managing director for World Travel for Business, the London-based business travel

"However, the airlines will only be successful in persuading passengers to put their baggage in the bold if they are secure in the knowledge that the bags will

be there when they disembark." Many passengers using Heath-row had their confidence dented last summer when flight delays and system failures meant tens of thousands of Items were mislaid.

British Airways, the airport's dominant airline, and BAA, its operator, are still bickering over who was responsible. However, both say that normal service has been resumed, with BAA invest-

Mr Bor is not so sure. "Not as much progress has been made as I would like," he says, citing a client who flew first class with BA from New York to Moscow via Heathrow. The client, a main board director of a top US company, arrived safely in Moscow. His bags did not. Mr Bor's experience is that the

transfer of bags between Terminals 1 and 4 is particularly prone to mishap. BA says this should improve when a tunnel between

"I'm telling you, this is hand tuggage"

The uncertainties of checking in luggage have caused more passengers to keep it with them, which in turn has led to a clampdown on those who attempt to carry more than they are allowed. KLM is one of several airlines that provides check-in staff with a bin. If the bag fits in it, it is permitted as hand luggage; if not, it goes in the

The problem for passengers is that there is no consistency between airlines - or even within them. The International Air Transport Association recommends that the height, width and depth of a carry-on hag should not add up to more than 45in (114cm). It is also considering recommending a maximum weight.

However, such standards are not applied universally. Generally. European carriers allow one carry-on bag, whereas US airlines



permit two, although even this principle is unreliable. In the US, Northwest Airlines only allows one but permits in addition a handbag, briefcase or laptop American Airlines allows two bags plus a handbag, briefcase or laptop, while Continental says these items must be among the two permitted bags. To make matters more confusing, Delta Air Lines has one set of rules, while its offshoot, Delta Shuttle,

has another: Most airlines allow more bags in premium class than in economy but inconsistencies can occur in the same class. The Air Transport Users Council receives many complaints from passer gers whose modest holdall is steered towards the hold only to find their more assertive neighbour stuffing an oversized suit

case into the overhead locker. Kyle Davis, American Express director of purchasing, has ever had to resist an attempt to confiscate his laptop. "I told them this was not negotiable," he said.

The issue also leads to tensions between passengers and cabin crew. "I once saw a woman get on board and the first thing the attendant said to her was: "That bag has to go in the hold'." says Mr Davis. "The woman turned to the attendant and said: 'Good

evening, welcome on board'."
Solutions may be at hand. Aircraft manufacturers are aware of the demand for a greater carry-on allowance, says Hans Krakauer, government and industry affairs spokesman for the International Airline Passengers Association. Among options being considered for new aircraft designs are stow-

age areas away from seats. Mr Krakauer also argues that manufacturers, airlines, and airport authorities need to cooperate more and change their attitude towards baggage. "At the moment, they regard luggage as cargo rather than a passenger service and that alters their whole philosophy," he says.

on flights over north Afghanistan

A ban on US flights over northern Afghanistan has forced Delta to drop a code-sharing arrangement with Swissair on flights between Zurich and Delhi, Bangkok and Singapore. The Department of Transportation in Washington says American carriers may not fly over the region which is the focus of civil war between government forces and the Taliban.

A Delta spokeswomen says: "The DoT also forbids us from putting our code on flights over the restricted area. Because certain Swissair flights may be operating there, we have had to vithdraw our code." Swis hopes to re-route its aircraft, and says it is confident its agreement with Delta can be resuscitated.

BA non-stop to Iran

British Airways is to resume non-stop flights between London Heathrow and Tehran, knocking two hours off the current journey time. Flights have been stopping at Baku in Azerbaijan. The airline flies to the Iranian capital on Tuesdays, Thursdays and Sundays.

Sounds good

American Airlines is testing a voice recognition booking syst on top-tier members of its frequent flyer programme in the US. Instead of keying in numbers on the telephone when the reservations department answers, customers read out their membership codes and the computer digs out details of their preferences. The call is then picked up by an operator who is able to greet the passenger by name and can already see -



Delta hit by US ban whether he or she has any meal or seat requirements. Allez Qantas

Qantas plans to launch direct flights between Sydney and Paris on October 26, It will operate three times a week, on Tuesdays Thursdays and Saturdays, via Singapore. On the same day the altine will introduce services between Brisbane and Rome, via Bangkok; and on November 20 it intends to start flying between Sydney and Buenos Aires, stopping en route in Auckland. Services to France and Argentina await government approval.

BT phone home British Telecom has launched a

charge card which it claims will save travellers the bother of claiming expenses for telephone calls and data transmissions. Called BT Business Chargecard, it will allow them the alternative of charging the cost to a credit card or direct to their company's phone bill. It also allows users to nominate their office or mobile number as an account code, so they need not even carry the card with them.

Fit to fly

Pittsburgh airport has opened a itness centre for passengers. If you have checked in your work-out gear, you can rent some, including shoes, for \$3.

Air to show

London's Earls Court exhibition centre will have a direct rail link with Gatwick airport from next spring. Work has begun on a new station across the road at West Brompton. It will be served by Connex South Central trains running between Gatwick and Rugby, which already stop at Olympia. Silverlink's Willesden Junction-Clapham Junction Shuttle trains will also call there.

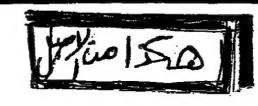
Hotel makeover

ausanne's Beau-Rivage Palace Hotel, on the shores of Lake Geneva, has undergone a \$10m (£6m) facelift. Bedrooms have modern points, ISDN lines and remote control for lights, windows, and shades.

Roger Bray

Likely weather in the leading business centres

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LUCERNE The Luceme festivel celebrates its 80th BININGCSary with the inauguration of e new takeside concert half on Seturday, It has been designed by rench architect Je Nouvel and US coustics expert Pursell Johnson, and can be used as a year-round congress and conference centre. The doesing concerts are given by Claudio Abbado and the Berlin

Philhermonic Orchestra, and the estival runs until September 10: **EDINBURGH** The Edinburgh Fringe Festival starts this year a week earlier than the official Festival. Sight



位。但是其实是他的是**是是一种的**是是一种的。 Morton's Blood Below the Window and Liz Lochhead's

> concert of the factival proper at the Lister Half on Sunday - a nerhymence of Redire's Good Messe des Morts. Among the Sestinal's many attractions this der ase a Verdi Schiller cycle by the Royal Oparts a Scottish Opara production of Smelana's Dalibor, a Sibiglius cycle with the Chember Orchestra of Europe, recitals by Bostridge, Schiff and Terfel, and thesire productions by Stein, Bondy and No van Hove. The dance programme includes a delebration of Hens van Manen (left).

BADEN-BADEN

TAMPERE

and Argentine.

The Mailinsky Theatre of St Petersburg takes up residence in the Festsplethous on Saturday for a week of performances conducted by Valery Gerglev. Repertory includes a new production of The Queen of Spaces, starring Vincimir Geluzin. and Galina Gorchalova.

This year marks the 30th. isary of the Tampere theer that Rinning for six days and nights every August, the Testival includes the most interes productions of the Physish theatre son. This summer's event, which opens tomorrow, also estures a Harriet Bronk Lithwenia elongside guest productions from Germany, looland, Norway, Italy



London The Elgar-Payne Third Symph makes its Prome debut on Thursday in a concert by the SBC Symphony Orchestra under Andrew Davis - the same forces

who gave the work its socialmed

premiers in February. A "Dives" seeson at the Donmar Warehouse starts tonight with Sibling Revely, featuring Ann Hampton Callaway and Liz

Joe Orton's classic black farce Loot opens on Wednesday at the Vaudeville Theatre. The production is directed by David Grindley, and is ted by Fred Ridgeway and Tray-Ann Oberman fett). Shekespeare's Globe

heelre founches the two lest of this year's productions on Thursday: The Honest Whore by Thomas Dekker, and A Med World, My Masters, by Thomas Middleton.

SCARBOROUGH Alan Ayckbourn (right) directs the iere of Tim Firth's latest play.



Love Songs for Shopkeepers, at

the Stephen Joseph Theatre. The







Thes Musgrave, Joan Tower and Effen Tastfe Zwillch: Musinating as the discussion was, nothing spoke loader than their music. The gender issue eveporated

THE SANTA FE CHAMBER MUSIC FESTIVAL

lajor musicians in a minority group

Andrew Clark argues that women composers need no special pleading for their work

topic for minorities and special corner of US society in which at mainstream concerts. That or specialise in conducting. Music Festival

Unlike previous years, when serving digestible portions of Its centrepiece was a symposium on women composers, three of also announced that next year it would include music of Spanish and native Indian origin, in order to reflect the distinctive culture

of New Mexico. The symposium, coinciding provoked heated discussion among Santa Fe's usually passive audience. Some critics interpreted it as an outbreak of political correctness: by giving a special platform to women composers and Indian art, the festival seemed to be putting

not because they were any good.

As far as quality is concerned. the festival contented itself with the three women under the spotlight at Santa Fe had nothing to Bach and Beethoven to tourist fear. Thea Musgrave (b.1928), audiences, this summer's event Joan Tower (b.1938) and Ellen ventured into the political erena. Teaffe Zwilich (b.1939) were represented by works which, in each case, demonstrated a strong per whom had their music played in sonality and distinctive style. At high-profile concerts. The festival the symposium, they came across as dynamic, witty people who needed no special pleading. Indeed, they spent the entire day trying to duck the gender issue. as if embarrassed that it should be raised at all. And rightly so. with this ethnic policy initiative. It's an insult to suggest they earned their reputation because they were women, rather than because they wrote good music. And yet each of the three seemed only too happy to take

ferment. This again raises the Susan McClary, who chaired the cause in music only diverts attenthorny question of political cor- Santa Fe discussion, wrote books tion from the real issues: how to

Are you being underserved? The non-musical issues before musi-they still account for less than sion to conservatoires, to be question has long been a hot cal quality. Here was yet another one per cent of the music played accepted in composition classes TDE is not one you expect to be dis- ment because they represented a country with laws for "affirma- changed all that. It confronted the problems of women composcussed at the Santa Fe Chamber minerity-or special-interest, and tive action" (a suphemism for the obstacles and prejudices fac- ers today are little different to positive discrimination), they ing women in music. Radical those facing their male counter-should qualify for occasional pre- feminist musicologists such as parts. Highlighting the feminist

as any living male composer. evant. Universal aesthetic values Thanks to their and others' are out; everything has equal success, women composers are value. This way of thinking has no longer regarded as freaks. As not only taken hold in US univer-Musgrave, Edinburgh-born but sities, it has begun to infect the ar at Santa Fe. rectness versus artistic quality. questioning the way women were sustain audiences and funding.

Just as gender politics in musical life appears to be running out of steam, identity politics is gaining ground. Everyone is identified by group, whether it be gay, female, black, Hispanic, whatever

they had no women's movement part in a gender-based forum. Women composers may no longer Until the postwar era, it was not Their music gets as much exposee themselves as victims, but easy for women to gain admission. Their music gets as much exposure in American concert halls. The word "good" is no longer rel-

When Musgrave, Tower and portrayed by male composers. how to counter the anti-arts drift zwilich started writing music, They brought to light unpub- in US education and public life. lished music by female composto promote their cause. Like such ers. Much of it deserved its appears to be running out of distinguished predecessors as obscurity – but the music had to steam in us missing ground. Everysion to be reached. Tower and one is identified by the group ded despite the fact that, his- Zwilich provide useful role modtorically, woman have been dis- els for a younger generation of female, black, Hispanic, whatcriminated against in music. female composers in the US. ever. What you think, do and pro-

But just as gender politics they belong to, whether it be gay.

Joël Lauwers. With the Vienna

Philharmonic and Opera. Cast Includes Dwayne Croft and

Soon: by Hal Hartley, with

music by Hai Hartley and Jim

Co-production with deSingel

Antwerp; Perner Insel; Aug 11,

Danton's Death: by Büchner.

Berliner Ensemble, directed and

designed by Robert Wilson, with

costumes by Frida Parmeggiani;

Landestheater, Aug 10, 12, 15

Beatrice and Benedict: by

Berlioz. New production directed

Susan Graham. The conductor is

The Magic Flute: by Mozart.

New production by Jonathan

and costumes by Judy Levin.

Miller, with sats by Roni Toren

Cast includes Sheri Greenzwald;

by Tim Albery and designed by

Jennifer Tipton. Cast includes

Edo do Waart Aug 13

SANTA FE

Senta Fe Opera

Tel: 1-505-986 5900

OPERA

New, co-production with the

Coleman, and sets and costumes

Barbara Frittoli; Kleines

Festspielhaus; Aug 15

Salzburg Festival

Tel: 43-662-844501

by Steve Rosenzweig.

THEATRE

That can be intimidating. American orchestras, opera companies and music societies are forced to pay lip service to identity politics, because otherwise they may framework. find themselves losing out financially. When they go cap in hand to foundations, business corporations and government agencies, activities and their audiences

reflect the diversity of American

women composers and Indian

reduces in order to hire a black double-bass player: it had to find a way of acknowledging the city's racial diversity. Other arts companies try to attract representatives of ethnic minorities on to their boards. Diversity is regarded as worth supporting. and a truer reflection of US society. Most US business corporations accept these values - in some cases under fear of lawsuits. But there are no laws governing women composers. What affirmative action encourages is a climate that sets quotas as goals. And once you start setting quotas in art, you create a crisis in defining aesthetic value.

Santa Fe would have been on much rockier ground if it had included music by less-established composers, such as the 10 lesbians whose new CD was being plugged on the festival fringe. Instead of wallowing in their identity cocoon, Musgrave, Tower and Zwillch spent most of the seminar discussing problems that anyone, male or female, can encounter in a musical career. How do you make your music better known? You bridge the divide between composer and performer by forming your own ensemble (Tower), or allying yourself with organisations like the American Composers Orchestra (Zwilich). How should you deal with the music industry? It's helpful to know other women in influential positions, but "grandstanding" - indulging in highprofile polemics - does not help.

There seemed to be a conse sus that after a century dominated by musical theorists, "the A-word" - accessible - was no longer shameful, as long it involved no loss of intellectual rigour, emotional expression was not a woman's prerogative, nor was an ability to get into the mindset of female characters. Tower confessed she had no desire to write for the human voice: Musgrave said her biggest operatic difficulty had been working out how to ma logical Society. And by putting scene go somewhere".

Illuminating as the discussion was, nothing spoke louder than music on to its programme, the Santa Fe Chamber Music Festival the music. Musgrave's choice of has tacitly bowed to the same recorded excerpts conveyed the classical discipline of her tech-In that respect, the festival is nique, and her talent for enticing no different from most other US the ear with sound. Tower intromusic organisations. In the cur- duced her Violin Concerto - a far rent political climate, if you more engaging and vibrant examassert what could be perceived as ple of her work than the homage "traditional" values, you risk to Messiaen for cello and piano, being labelled as patriarchal, which featured in one of the evening concerts. Zwilich was represented by her Piano Trio, an incisive, obsessive piece, powerfully argued in a traditional

At a festival concert later in the week, Zwilich's trio - perichstein Laredo-Robinson Trio they have to show that their sat comfortably between Beethoven's Flute Serenade and Elgur's Piano Quintet. The gender issue had evaporated: what The Detroit Symphony recently mattered was the music, not the suspended its usual audition pro- sex of the person who wrote it.

INTERNATIONAL

Arts

GLIMMERGLASS

OPERA

Alice Busch Opera Theater, Cooperstown. Tel: 1-607-547 2255 Falstaff: by Verdi. New production directed by Leon Major, with sets and costumes by John Conklin and lighting by Pat Collins. The conductor is George Manahan; Aug 11, 14 Partenope: by Handel, New production directed by Francisco Negrin, in his Glimmerglass debut, and conducted by Harry Bicket; Aug 10, 16

The Mother of Us All: by Virgil Thomson. Conducted by Stewart Robertson in a new staging by Christopher Alden, with sets by Allen Moyer, Aug 13, 15 Tosca: by Puccini. New staging by Marc Lamos, with sets by Michael Yeargan. The conductor is Stewart Robertson;

GLYNDEBOURNE Glyndebourne Festival Opera Tel: 44-1273-815 000

Aug 15

Revival conducted by Andrew Davis and directed by John Cox. The Countess is sung by Felicity Lott. With the London Philharmonic Orchestra; Aug 14

Le Comte Ory: by Rossini.
Revival conducted by Yves Abel and directed by Jérôme Savary, with the London Philharmonic Orchestra; Aug 12, 15
Simon Boccanegra: by Verdi. New production conducted by Mark Elder in a staging by Peter Hall With the London Philharmonic Orchestra. The title role is sung by Elena Prokina; Aug 10, 13, 16

Capriccio: by R. Strauss.

LONDON CONCERTS

BBC Proms, Royal Albert Hall Tel: 44-171-589 8212 BBC National Orchestra of Wales: Tadaaki Otaka conducts the UK premiere of Sofia-Gubaidulina's And: the feasting at its height. Programme also includes works by Dukas, Szymanowski and Strauss, With cellist David Geringas and tenor Jean-Paul Fouchécourt;

 BBC Symphony Orchestra: conducted by Andrew Davis in works by Ravel and Mozart, and Payne's elaboration of the sketches for Elgar's Third Symphony, Aug 13 Birmingham Contemporary Music Group: Simon Rattle conducts a programme of works by British composers including Ofiver Knussen, Thomas Ades,... Simon Hott and Mark-Anthony Turnage. With piano soloist

Thomas Adès and cellist Ulrich Heinen; Aug 10 Orchestra of the Age of Enlightenment: conducted by Heinrich Schiff in works by Haydn, Gluck and Beethoven. With baritone Thomas Allen;

Aug 12 Philharmonia Orchestra: European premiere of Leonard Statkin's Housewarming, conducted by the composer. Schwantner's Percussion Concerto, with Evelyn Glennie and Elgar's Symphony No. 2 in E flat major, Aug 11

Royal Festival Hall Tel: 44-171-960 4242 Kodo Drummers: return visit by the 14-strong Japanese troupe: Aug 12, 13, 14, 15, 16

EXHIBITIONS . **Barbican Art Gallery** Tel: 44-171-638 8891 The Warhol Look/Glamour Style Fashion: includes screen prints, films, reconstructed window displays, photographs and clothing; to Aug 16

Royal Academy of Arts Tel: 44-171-300 8000 Summer Exhibition: held every year since the Academy's foundation in 1768, the world's largest open exhibition displays work by established painters and sculptors alongside that of younger and less well known artistis; to Aug 16

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NEW YORK CONCERTS Avery Fisher Hall, Lincoln Tel: 1-212-875 5030

www.lincolncenter.org Canadian Brass: programm includes works by Bach, Mozart and Bizet; Aug 13 Mostly Mozart Festival Orchestra: conducted by Ivor Bolton in works by Mozart and Handel. With violin soloist Christian Tetzleff and

mezzo-soprano Susan Graham; Aug 11 Mostly Mozart Festival Orchestra: conducted by Ivor Bolton in works by Mozart. With violin soloist Christian Tetzlaff and piano soloist Louis Lortie; Aug 12

SALZBURG **OPERA**

Salzburg Festival Tel: 43-662-844501 Aufstieg und Fall der Stadt Mahagonny: by Weill. Conducted by Dennis Russell Davies in a staging by Peter Zadek, with sets by Richard Peduzzi. Cast includes Dame Gwynneth Jones and Wilbur Pauley. With the Vienna Radio Symphony Orchestra: Grosses Festspielhaus; Aug 12

 Don Carlo: by Verdi. New staging by Herbert Wernicke. with the Vienna Philharmonic and Opera conducted by Lorin Mazzel. Cast includes Samuel Ramey; Grosses Festspielhaus; Aug 10, 13, 16 Le Nozze de Figaro: by Mozart. Conducted by Sir

Charles Mackerras in a revival of

SCHLESWIG-

Aug 10, 15

HOLSTEIN Luc Bondy's staging, directed by CONCERTS

Schleswig-Holstein Music Festival

Tel: 49-431-567 080 Anne-Sophie Mutter: recital of Beethoven violin sonatas; Kiel, Schloss (Aug 14), Flensburg, Deutsches Haus (Aug 15) and Lübeck, Musik- und Kongresshalle (Aug 16)

Cologne Chamber Orchestra:

conducted by Helmer Müller-Brühl in works by Vivaldi and Bach. With soprano Barbara Schlick, flautist Patrick Gallols and oboe soloist Christian Hommel; Schleswig, Dom;

 Cologne Chamber Orchestra: conducted by Helmer Müller-Brühl in works by Bach. With soprano Barbara Schlick and flautist Patrick Gallois: Hasselburg, Scheune; Aug 11 Philharmonie der Nationen: conducted by Justus Frantz in works by Brahms: Sylt,

Aug 10

Westerland, Halle 401 auf dem Flugplatz (Aug 12) and Lüneburg, Marktplatz, Open Air (Aug 14)

TOKYO EXHIBITION Metropolitan Art Museum Tel: 813-3823 6921 The Carmen Thyssen-Bornemisza Collection: touring show of 94 paintings. Highlights include 19th century Spanish works: to Oct 4

VERONA DANCE Teatro Romano Tel: 39-045-800 5151

Romeo and Juliet: by Prokofiev. Robert North's choreography, created in 1990, is presented here for the first time in a production designed by Andrew Storer, Romeo and Juliet are danced by Benito Marcelino and Mia Johansson; Aug 16

OPERA Arena di Verona Tel: 39-045-800 5151 www.arena.it Tosca: by Puccini, New production by Giuliano Montaldo.Cast includes Ruggero Raimondi and the conductor is Zubin Mehta; Aug 14

TV AND RADIO WORLD SERVICE BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

 CNN International Monday to Friday, GMT: 06.30: Moneyline with Lou Dobbs 13.30: Business Asia 19.30: World Business Today 22.00: World Business Today

 Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20;

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

World Cup victory has given new confidence to France. This is just as well, says Dominique Moisi, as the country faces challenges from Germany and the UK

In the space of a jubilant night of victory for the World Cup life became blue. the colour of the French football team's strip.

The French had been morose, uncertain about themselves, their role and status in the world. Suddenly they regained selfconfidence and started to feel good again. To the fundamental question of identity - who am I? - the French gave an original, albeit limited, answer: "We are the world champions in the most global, prestigious and popular sport, soccer."

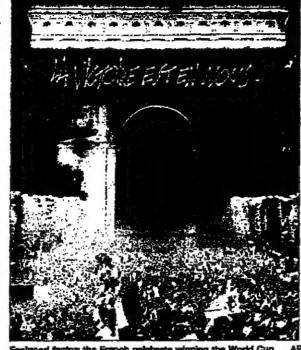
This feelgood factor had a moral dimension, with domestic political overtones. The French team was, in the words of Jacques Chirac, French president, not only tricolour, it was multicolour an allusion to its multiethnic composition, perceived by many in France as the best answer to the racist. xenophobic campaign of the Front National.

In the largest spontaneous demonstration since the days of liberation in 1944. the French expressed a strong need for self esteem and self congratulation. Today, only sports can provoke strong collective emotions; hence the jubilation over this victory went well beyond soccer itself to tap sentiments formerly exhibited in patriotic, ideological or even religious battles.

It is, therefore, no surprise that the popularity ratings of the French president and prime minister have soared. This is due not only to the World Cup effect but also to an increasingly obvious economic recovery, which has begun to affect, if only modestly, the rate of unemploy-

Mr Chirac and Lionel Jospin, the prime minister, have established a new equilibrium of power between elves, one that seems to satisfy the French and that lies somewhere between the spirit of the Fifth and the Fourth Republics. The prime minister governs the ultimate authority, lenger to Chancellor Helmut France and for the future of

THAMESLINK



incarnates France in a Kohl in German elections

For France's European largely unknown figure. partners, this summer's After more than 16 years changes are good news. The more confident France is, only natural that his princithe easier it should be for others to deal with it. Yet this positive change comes with less welcome overtones. dictable leader. At the very moment France has regained a sense of the closing of an era in Ger-

such a reassuring and pre-What the French fear is

to power of an SPD led by a

with Mr Kohl in power, it is

pal partner, France, should

worry about the passing of

The Jubilation over this victory went beyond soccer to tap sentiments formerly exhibited in patriotic

ideological or even religious battles

self-confidence, it is confronting with concern, if not diffidence, its closest partner and neighbour, Germany, while also contemplating with some irritation the new assertiveness of Tony Blair's

The possibility of the imminent arrival of a post-Kohl Germany troubles the French. What the French fear most is not the victory fully, whereas the president, of Gerhard Schröder, chal-

he accelerated the process of German unification while at the same time controlling, if not delaying, the potentially negative consequences of the newfound German sovereignty on the national The end of what some in

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many. In French eyes, Mr

Kohl managed a double feat:

Germany denounced as the Français des Relations Interera of national mesochism has a special meaning for here in a personal capacity

LETTERS TO THE EDITOR

Two currencies for EU may be answer for cyclical problem

many increasingly behaving From Mr Jon Livesey. parliament, the new Labour government announced itself to be broadly in favour of the UK eventually embracing the euro, but it also transferred control of interest rates to the Bank of England, along with respon-sibility for keeping inflation under control. The result has been what anyone could have predicted, and what some of us actually did predict: as the rest of Europe started to come out of its recession, the UK's underlying inflation started to rise, interest rates were raised. and, once more, the UK is headed for a contraction just as the continent is headed

In deeds, if not in words there is little that distinguishes the economic policies of Dominique Strauss-Kahn, Mr Jospin's powerful economics and finance minister, from those of Tony Blair. The Labour experience in the UK cannot be openly accepted as a source of inspiwarm, friendly and activist next month, and the return ration, when in reality it offers a mirror reflecting Mr Jospin's own pragmatic choices on most, if not all,

with two Frances instead of

one - that is, with a Ger-

as France does today in

terms of its national self-

assertion and even a grow-

The diffidence that may

exist towards the UK is of a

completely different nature

and stems largely from the

ideological competition between the two lefts in

power. Whatever the extent

of the improvement in the

personal relationship

between Messrs Blair and

Jospin, the Socialist party in

France continues to resent

any attempt to impose Blair-

ism and its programmes on

ing self-righteousness?

To work with the market, French style, or to work for the market, British style, the differences lie more in the two countries' national mentalities than in the concrete policies that they actually

carry out France is concerned about Germany's and the UK's present direction for an additional reason: the growing entente between London and Bonn, which it can only interpret to its detriment. The French have watched warily the joint accords made by the Frankfurt and London stock exchanges, as well as the closer co-operation of the German and UK aeronautics and defence industries. The World Cup effect has yet to spill over into the world of financial and geopolitical power.

The author is deputy director of the Paris-based Institut nationales and editor of Politique Etrangère. He writes

So, for yet another bust- pound puts a limit-on UK Sir, At the start of this UK ness cycle, the UK will be growth. This cycle can go on striament, the new Labour out of step with Europe, and indefinitely and it's not necout of step with Europe, and once again it will be seen to be impossible to have a single interest rate that suits both the UK and the rest of the EU, and so impossible to have a single currency and a single central bank to con-trol what actually remain Yet this is not an argu-

> Sconer or later New Labour is going to realise that the UK and non-UK EU economies are countercyclical for good reasons. When the pound is weaker, the UK expands. When the rest of the EU expands, the snake currencies weaken, foreign investors switch to Mon the pound, and a strong US

two counter-cyclical econo-

essartly a bad thing. It may in the long-term be preferable to have two countercyclical internal European economies to having all of Europe endure boom and

ment for giving up the other EU benefits of reduced tariffs and unified standards. Instead, maybe it's time to think about an EU with two currencies - the euro for the core, and the pound for the

Jon Livesey. 830 San Lucas Ave, Mountain View CA 94943.

Making the worst of a respectable argument

From Mr John W. Wood. Sir, In "We must slay this monster" (July 30), Senator Jessie Helms makes the worst of a respectable argucompromised drafting of the Rome Treaty could have the inadvertent, or surreptitious, effect of creating an international order. He says the order would subordinate the actions of sovereign states, and even the UN Security Council, to the judgments and censures of a group of

debated or appreciated. This argument may or

may not prove valid, but it is the proper concern of a nation with the special capabilities and responsibilities of the US, and as such, also the proper concern of the chairman of the Senate foreign relations committee of that country. It is ironic that even dis-

unrepresentative, unelected, tinguished diplomatists international jurors, without among your correspondents. that diminution of a nation's -who reject Senator Heims's sovereignty being properly arguments, appear to have accepted a tinge of his bombestic, rhetorical style; per-haps they believe, as Aristotle did, that rustic sceptics deserved punishment rather than counter argument.

Republicans Abroad, 310 Pirst Street SE.

Plan means virtual ban on cotton imports

From Mr Mathew

Sir, You reported ("EU's cotton imports row in final phase", July 28) that the European Commission proposes "minimum price undertakings" that are less severe than anti-dumping duty and that "proceeds from higher selling prices go to manufacturers".

The minimum prices proed by the Commission in its "Disclosure document" Number One Southwark Bridge, London SE1 9HL

from the five countries will ment and price inflation. create a shortage of unbleached cotton fabrics and the threat to "200,000" jobs in the whole textile manufacturing industry mentioned in your report will become a reality. The Commission's efforts to save

are very much higher than face by insisting on the promarket prices and those posal of anti-dumping duty manufacturers in the five and the more stringent countries will not be able to "minimum prices" on make any sales. A drastic fall in imports will create large unemploy-It is to be hoped that the Commission will withdraw

> Mathew Kallumpram, Premier Textiles,

its proposal.

Government decision destructive

From Mr Andrew McNulsu. Sir, At a recent ministerial meeting of the OSPAR Cummission - the body responsible for regulating the disposal of waste in the north-east Atlantic - in Portugal, the UK government. with no prior public enasul-tation, committed the EIK to an international obligation not to use concrete-fixed offshore structures in the oil and gas industry.

It appears that this decision was based on the assumption that complete removal of concrete-substructures is not possible. Arup totally disagrees. There is no technical reason why a concrete structure property designed for decommissioning should not be refloated and re-installed dsewhere or brought back to a dry dock for onshore dis-posal. We would further argue that removal of such self-buoyant structures should be easier than for

large steel Jackets. At a stroke, the govern-ment has destroyed a potentially significant civil engineering market in north-west Europe and threatened its axistence elsewhere - in a field where Lik companies have developed expertise. The fact that the lecision was taken without open consultation and for no apparent justifiable reason is

particularly galling. is this really the govern ment that, in opposition, set such store by a freedom of information act? We can only hope the global body effectively responsible for decommissioning offshore platforms, the London Convention of the international Maritime Organisation, dentonstrates more sense.

Andrew McNulty. Arup Energy, 13 Fituroy Square.

PERSONAL VIEW EUNAN KING and DERMOT O'BRIEN

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On the crest of a wave

Speculation is rife that Ireland's economy is overheating, but the boom may be far from over

high growth rates taken as *prima* facie proof of overheating, there has been much media comment that Ireland has a bubble economy - fuelling speculation that it will soon burst. We beg to differ. For the

Irish economy, how fast is too fast? And what is its sussinable growth rate?

growth rate in the 1986-96 period was 5.5 per cent. During this period the inflation rate was on average 2.7 per cent - 1 percentage point below the European Union average - and wage inflation was moderate. The balance of payments was in surplus. In the years 1994-97 growth of real gross domestic product averaged 8.4 per cent a year. The consensus view in the media is that this run-

away train will crash. However, the economy may not be as much above its sustainable track as many believe. In Ireland there is a startling supplyside story. Ireland, like the US in the 1960s and 1970s, has a wave of baby boomers, aged between 15 and 24. working through the population. By 2006 the labour force is likely to be as much as 27 per cent larger (2.5 per cent growth a year) than it was in 1996. If productivity continues to rise at 3.5 per cent a year, the economy can grow at a sustainable 6 per cent trend rate a year until 2006. By contrast, the population in the EU will be smaller Irish growth of more than

6 per cent should be sustainable for a period given the initial level of unemployment and immigration. Unemployment fell to and of 1997. Of the 170,000 out of work, 130,000 were under 44 and 90,000 had been unemployed for more than a hourly earnings in the sector year - with 130,000 seeking rose 9 per cent in 1997, the full-time work. Since the housebuilding cost index labour force is growing by rose only 4 per cent, suggestmore than 40,000 per annum ing much of the earnings and employment is rising at rise was based on higher more than 50,000 per annum, productivity. The industry unemployment should fall employs less than 100,000 by 10,000 a year if net migration is zero. In 1996-97, net immigration of people of working age was 7,000 or 0.5 labour. The high-technology er cent of the labour force.

Real GDP growth around % change

so although the numbers joining the workforce are relative cost shift. significant, unemployment is still high. In the aggregate it is difficult to argue that Ireland is near an employ-ment bottleneck. As well as a favourable supply side effect, the baby boom has implications for demand. The population wave will convert into a population bulge within 10 years. The boom in clubs and restaurants, and the rise in housing demand and car registra-

tions is not just tourist-led. Discretionary expenditure is rising sharply in Ireland, not only because of higher omes, but also because of a drop in the birth rate since its peak in 1980. The birth rate is less than two, implying the population will eventually fall if this persists. The lower birth rate has been accompanied by an acceleration in female participation in the workforce. mainly by married women. However, the average, at under 40 per cent, is below the EU and very much below

the UK, at 54 per cent. Though labour supply at the aggregate level is plenti-ful, there are some sectoral labour shortages, such as the building industry. While people so a small rise in immigration would have an impact on the supply of sector is also reporting investors in the housing

Anecdotal evidence sug- labour shortages but this is gests immigration is rising - not unique to Ireland and does not imply an adverse

> If growth is as rapid as suggested in Ireland, significant infrastructure changes will be required. This may be a problem in the availability of zoned land for housing and commercial development - even though the government announced some changes recently. The car population is also rising and could reach 1.6m within 10 years, compared with about 1m in 1996. This will cause congestion unless transport policy is altered.

he budget is in structural surplus and on unchanged policies this could reach more than 7 per cent of GDP by 2003, if a growth rate of 6 per cent is achieved. Debt to GDP would have fallen to about 25 per cent at that stage on

unchanged policies.
But a balance will have to
be struck between debt repayment, infrastructure spending and tax cuts because the baby boom impact will begin to fade after 2006. What can go wrong? Rapid growth in credit, fuelling a boom in house prices, is a risk, but is probably exaggerated.

There is evidence in 1997 data that borrowers were putting a rising equity stake into house purchases and there was a sharp switch in the number of loans to high income groups. This tends to squeeze out those on lower incomes and may fuel wage pressures. However, changes in tax incentives to personal

pace of rising house prices.

The pick-up in consume prices in the first half of this year is seen as the product of rapid growth. However, more plausible is that the 5 per cent fall in the trade weighted exchange rate since 1997 is the reason. The small open economy model of inflation puts exchange rate changes and inflation in trading partners as the main determinants of inflation. This has been verified for Ireland in research by the Central Bank in the past year. There are few smaller economies than Ireland.

Recent inflation data show service sector prices rising more slowly than goods prices. Hardly a sign that the labour market is tight and that wage inflation is pushing up prices in the sectors of the economy protected from the winds of trade competition. A downturn in the world economy would of course adversely affect the Irish economy.

Almost half the recent fast growth was due to chemicals, computing and electrical engineering. However, these sectors, dominated by foreign-owned companies. are numerous and the economy would not be drasticulty affected if some transferred.

Pure assembly is diminishing and this is not a negative, since Ireland's competitive position rests on the educational composition of the workforce. If traffic and housing difficulties are overcome, Ireland can enter the next millennium on the crest of a baby boom wave.

The authors work for NCB Stockbrokers, Dublin

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That sinking feeling

Care Lagra

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Monday August 10-1998

The scourge of terrorism

nia pose monumental challenges for President Bill Clinton. Not only does he have to explain the failure of the world's most sophisticated security apparatus and intelligence network, he also has to prepare the nation for role as the world's policeman what could be a long and arduous process of bringing those sible to justice. The US record in determining

responsibility for terrorist attacks has been poor. The invesigation into the 1996 bombing of a US complex in Dhahran, Saudi Arabia, appears stalled. Initial assumptions of Sunni dissident involvement were undermined by arrests of Shia opponents of the infiltration. regime and hints of Iranian links. Unconfirmed reports have claimed a breakdown in US-Saudi co-operation. The Libyans allegedly behind the blowing up of Pan Am flight 103 over Scotland a decade ago also have yet to be brought to trial.

US policy on past terrorist acts has often focused on searching for a state link, with Iran and Libya topping the list of suspects. But Libya has kept a low profile in recent years and Iran, with a new moderate president, is improving ties with the US.

The US is right to be moving cautiously and hinting that the investigation could take years. It is also right to refrain from pub-Arab groups in the US have warned against pointing the fin-

The terrorist attacks on US ger at the Middle East. But a embassies in Kenya and Tanza- claim of responsibility from an unknown Islamist group and speculation among counterterrorism experts have nevertheless focused attention on Islamist extremist organisations.

in the post-cold war era, the US makes it increasingly vulnerable to terrorist acts, especially from ceive as American support for illegitimate rulers. Dealing with this threat will require a reassessment of intelligence policy. which now relies heavily on tech-nology such as satellite surveillance. It should shift back to traditional work with informers and

The US also needs to enlist dealing with the terrorist threat. Attacks on the US are not a matter for Washington alone, Similarly, any eventual retaliation will be more effective if carried out on a multilateral basis.

This is all the more important at a time when the US is feeling its way towards delicate deci sions on issues such as relations with Iran. There will no doubt be increased pressure in Congress unilaterally to punish states accused of sponsoring terrorism and companies that work with them. This would not help combat specific actions such as those perpetrated in Africa on Friday. And it would undermine the broader international campaign

Promoting drugs

prescription drugs. The Food and to the medical profession than in Drug Administration reluctantly opened the floodgates last easy to see why hard-pressed docpromote medicines on television, and the pharmaceuticals industry has responded by pouring an estimated \$1.3bu into consumer advertising this year. Meanwhile that a better informed, if choose in Europe the industry is gearing ler, population is likely to be up for a lobbying campaign. prevents it using the mass media to disseminate any information

ment

BICKES CAME

about prescription drugs. The politics and economics of vision advertising. But some relaxation is clearly overdue in the internet era. It is absurd that medical data about globally available drugs, have to carry official warnings that the information is for US residents only.

The argument that forced the FDA's hand in the US was that any form of advertising that does not cause harm should be allowed on freedom of information grounds - and no one could prove that drug ads would harm consumers, so long as they mentioned the main risks and did not exaggerate the benefits.

in Europe too, the movement to give patients more information and therefore power to influence their own treatment - is product.

deluged with advertisements for still more old-fashioned deference the US. in the short term, it is August by allowing companies to tors might prefer to deal with unquestioning patients than informed consumers who take up more of their time. The profession must understand, however ier, population is likely to be healthier in the long run.

tising and improved public health will take a long time to prove. But the US experience already suggests that television healthcare in Europe are not advertisements can pay off quite ready for full-blooded tele- quickly for pharmaceuticals companies in the form of a sharp increase in prescriptions.

Demand for expensive new

drugs is growing fast even without advertising, and European health services could not afford a further surge fuelled by direct promotion. Allowing US-style TV ads in Europe would be a mistake until the whole co-payment system has been reformed. Patients who can afford to do so will have to contribute more to prescrip tion costs - especially for what are becoming known as lifestyle drugs. For the time being, Europe should consider allowing a more informational style of advertising raising awareness about particular diseases and available

enough. Next year's Y4,000bn treatments without plugging one

The fall in the yen can only be stopped by US and Japanese intervention. Simon Kuper and Gillian Tett look at the possible grave consequences for the rest of Asia if they do nothing

the least convincing perfor-mance by a cabinet minister that he could remember. ago, in the middle of the night, Klichi Miyazawa gave his first news conference as Japan's finance minister. The 78-year-old spoke haltingly, said he would try his best, referred to his age, and then, like a thunderbolt at the end of drizzle, suddenly evealed that he did not believe and stocks.

vision instantly sold yen. Mr Miyazawa, who had not see words had been misinterpreted. Japan would still intervene when Since that night the curr

Dealers watching him on tale-

has plunged Y5 against the dol-lar, and now stands only Y0.5 above its eight-year low of Y146.75. The yen last hit that level in June, before the US and The Bank of Japan has made forays into the foreign exchange market three times since Decem \$200bn-plus in dollar reserves. Now the moment of truth has come: how far will the US and

The question matters beyond Tokyo, Washington and the currency deaks of trading banks. Another sharp fall in the year perhaps below Y150 - could push China to devalue the yuan. No one knows precisely what level of the yen would prompt that, but it would have great consequence worldwide, and particularly in

Japan be willing to let the yen

Chinese officials have warned that the ven's slide is making their own currency less competitive. Goldman Sachs, the US investment bank, says every 10 per cent fall in the yen against the dollar in effect makes Chinese goods about 2.5 per cent dearer abroad. The year and the Hong Kong dollar are already overvalued, Goldman adds.

the rest of Asia.

If China devalued, as it did in 1994, the HK dollar would almost inevitably lose its 15-year-old peg to the US dollar. Many other Asian countries might then devalue for the second time in a year, and that could render them unable to pay back their dollar debts. On Friday, Vietnam devalued the dong 9 per cent - a fore-

taste, some say. Worryingly for Asian finance ministers, the -yen looks sickly,-Goldman last week sharply revused down its forequent for the drop to Y155 against the dollar in the next three months.

Yen bulls are virtually extinct, for three reasons. First, almost no one expects Japan's economy to recover soon from its worst recession in 50 years. Second Japan's "Big Bang" in April, prompted partly by the crisis, has made it easier for Japanese to invest in foreign currencles. And third, Tokyo's enthusiasm for intervention seems to be waning.

Japan's new government appears keener than its predecessor on trying to stimulate the economy. Keizo Obuchi, prime minister since last month, pledged on Friday some Y7.000hp new tax cuts next year and Y10,000bm more "stimulus measpres" this autumn. A Y16,700bn stimulus package unveiled in the spring may ease the downturn in the autumn.

However, all that may not be

planned tax cuts will do little keep their money in yen accounts more than replace this year's "temporary" tax cuts. The public spending sector packages are unlikely to boost growth for long

Knock-on effect

in any case, much of the stimulus will take effect only next April, which currency traders regard as an age away. The dommo of devaluations could have happened by then.

Japan's deep-seated banking problems, in the form of Y88,000hn in problem loans, also hangs over the economy. Western investors and diplomats want the ruling Liberal Democratic Party to close insolvent banks and force others to write off large amounts of bad loans. But that could cause job losses, force companies into bankruptcy, and thus prolong the downturn.

The government could find a way-out-of the dilemma if it uses some of the policy tools it is now creating, such as the so called to smooth the impact of bank failures, by creating government institutions that would take over insolvent hanks and try to sell them, while maintaining credit lines to healthy borrowers.

Mr Obuchi has not yet shown the political touch, courage and vision to prove that he can walk this policy tightrope. And his finance minister lost much respect in the market through his early dithers, says Jeremy Hawktos, chief economist at Bank of America in London. If Mr Miyazawa or Mr Obuchi put another

foot wrong, the yen could suffer. Even if they do everything right, the economy will not pick up quickly. There is no chance of the official discount rate rising soon from 0.5 per cent, where it has been stuck for more than two years. With long-term bond yields closing at 1.195 per cent last week, there is almost no incentive for international investors to

while they wait to see what happens to the currency. Bond yields in the US "Goldflocks" economy are almost 4 percentage points

And just when incentives abound to sell yen, the Big Bang of deregulation on April 1 has helped Japanese investors to do so. They no longer need prior approval to invest overseas. although the Big Bang rules contain several "catches": for instance, investors must now

report investments to the tax So far, the Big Bang has triggered only modest capital flight from Japan. Net portfolio out-

flows jumped to Y3,700bn in

Mr Obuchi has not yet shown the political courage and

vision to walk this policy tightrope

April, but fell to half that level in

However, Japanese consumers and companies tend to react slowly to regulatory change, so more flight is possible later this year. "Companies are definitely moving to put more money overseas - it has become like a fashion," says Minoru Mori, presi of Daiwa International Capital Management. "I think the proportion (of non yen assets) for some companies will rise to about 35 per cent this year or even 40 per cent (from 30 per cent before.)"

Many consumers are curious about the new "foreign" products on offer since "Bigu Ban". The counters of banks such as Fuji or Sanwa are plastered with colourful signs extolling customers to currency market, Robert Rubin,

purchase "high yielding" instrunents in sterling and dollars. Along with many middle-class.

internationally-aware Japanese. Toshihiko, a Tokyo translator. has recently opened a foreign currency account with Citibank, and turned part of his yen savings into dollars. "When the dollar went to Y140 I thought "that's it!"," he says.

The economy and the Big Bang are two strikes against Japan. If Tokyo has given up intervention except in "extreme situations", as Mr Miyazawa initially said, that rould be strike three. But no one is certain yet.

The finance minister seems to have learned that the threat of intervention is currently the yen's only hope. He and officials now warn constantly that Japan might intervene. Traders are lis-

However, Mr - Miyazawa's first words were no accident. Some of Tokyo's bureaucrats do seem to money supply. vention.

The Bank of Japan quietly tried to oppose the Good Friday dollar sales, and seems to be winning the internal debate over intervention. There has been plence recently from Eisute Saleakibara, the senior finance ministry official who in the early 1990s earned the nickname "Mr Yen" for his love of talking up the currency.

ply learned from history. Since the week before Christmas, when the Bank of Japan carried out the first of its three recent interventions, the yen has dropped Y15 against the dollar. The message is clear, intervention only works if it pushes the market in a direction it wanted to move in anyway. That creed is the orthodoxy among central bankers today.

And its strongest adherent is the most powerful voice in the US treasury secretary, formerly Japan can only buoy the yen by reforming its economy, not by meddling in the market.

Meal GDP growth Annual % change

In the meantime, he can proba-The US economy is running close to full capacity, which means that losing some of its Japanbound exports may be no bad thing. The US is thought to be unwilling to support more intervention for a while.

Some in Tokyo have even been aged slide in the yen. The Bank of Japan's policy committee, for example, noted in its June meeting that a weaker ven was delivering some economic boost. The bank's newly independent policy board appears to have spent mos of its recent meetings mulling whether to cut the official discount rate. It could also expand

some at the Economic Planning Agency, have expressed interest in the latter notion, even though it would probably hit the yen. "If the yen fell, it might hurt Asia by forcing more devaluations," says one senior Japanese government official. "But if Japan does not recover this will hurt Asia any-

To some degree, Tokyo and Washington have little choice but In part, the Japanese have sim- to live with a weak yen. The higger question for Mr Rubin and his deputy, Lawrence Summers, is how far they can allow the yen to slide before China devalues.

Jiang Zemin, Chinese president, repeated yesterday that he was determined to avoid devaluation. However, the implicit threat that China might "go" gives the country a new diplomatic influence in its dealines with the US and Japan. But the main responsibility for what bappens pert

Super League

high price. Clubs face ever rising about two-thirds of sponsorship wage bills for the best players. Those listed on the stock to the clubs. In the Super League, exchange, like Alax and Man-virtually all cash raised would go chester United, have an added shareholder imperative. A breakaway European Super League might help meet these goals. Butthe existing framework offers a more assured future.

The challenge for football clubs that hope to stay at the top is to find ways to increase revenue. Since there is a limit to the number of games that can be played and replica kits sold, television and sponsorship are the obvious route. UK clubs now get 20 per cent of their revenue from television. Italian clubs make a third of their money this way.

This summer's Super League plot was hatched by Media Partners, a sports management firm. It aims to increase the earnings of a small group of powerful clubs. The teams would meet in a midweek league, eclipsing the Uefa Champions League and operating independently of European football's governing body. A place in the competition and more money would be guaran-

teed for those invited. That the big clubs are taking the suggestion seriously comes as no surprise. They have long complained at Uefa's poor manage ment, and are frustrated by what they say are the inadequate rewards of European competi- sizem of fans and sponsors alike. of an announcement would not

Success in football comes at a tion. In the Champions League and television fees are passed on

to the competitors. o the competitors.
Of course, much of what the Super League offers could be achieved within Uefa's existing framework. The breaksway pro-posal involves a good measure of sabre-rattling. The pressure may be working. Uefa seems increase ingly ready to soup up the Champions League, with more games and incrative pay-per-view television contracts. The sticking point is likely to be on qualification.

Qualification for the Chammi ous League, means the kind of uncertainty that fans love, and investors hate. Indifferent form can lead to financial disaster. But on this point of principle Usfa is unlikely to budge.

This is quite correct. For foothall fans - whose enthusiasm provides the foundation for football's popularity and wealth part of Enropean competition's attraction is that it comes as a reward for domestic success. Places for those with market power, irrespective of performance, would damage the credibility of the competition. A gustanteed income stream might be nice in the short run. But the risk for the longer term is that by breaking the rules of fair play, a closed shop would sap the enthu-

Clause out for Lester Let's hear it for Lester M.

Alberthal Jr. The announcement 54 as chairman and chief executive of Electronic Data Systems sent the share price winging up on Friday by more than \$5 to nearly \$42 - reflecting investora discontent over his lacklustre leadership in recent years and delight at the news of

his going. Şmall-minded people are already objecting to one detail of his departure, a compensation package that could be worth more their \$38m. But this represents a wonderful investment for an after tax cost of about 5 cents a share, EDS has increased its stock market

value by neerly 14 per cent. Indeed, there's a good case for widespread use of what Observe dubs the Alberthal clause. Chief executives' farewell packages. should be adjusted to reflect the stock market performance of . their share price the day after the news is announced. If it goes up, they benefit: if it goes down, they lose. This will encourage good people to stay and bad people to

Precautions would have to be taken against price manipulation. For example, a chief executive who was arrested for naked bunges jumping the week ahead qualify. But that's a technical detail. In fact, there is only one serious flaw in the Alberthal clause. That's the quarantee he'll never go to work for a competitor. That would clearly be very much in EDS shareholders'

Tasty tussie ikea, the world's largest furniture

retailer, is so proud of its Swedish origins that it ships local delicacles such es köttbuller meatballs to you and me - to serve up in its stores around the world. But while you can tuck in to the tasty little things everywhere from Shanohai to San Francisco, they're definitely off the menu in neighbouring Norway.

ikea reckone Norwegians would happily chomp their way morsels a year, but it won't send them because it's objecting to a tough customs duty on prepared foods. The privately-owned company, backed by the Swedish government, has complained to Osio about what calls a "punishment tax".

Ikea points out that it buys 500 tonnes of Norwegian samon a vear. "We've have made no threats about the salmon," says Lennert Jangelv, head of Ikee food services. "But we would like them to make a goodwill gesture over our meatballs."

Norway appears as immovable as granny's gravy. Further

meatball talks are planned, but it looks as though Oslo might find a compromise hard to swallow.

Borderline case

OBSERVER

There appears to have been a change of heart at the Malaysian frontier. Not so long ago it was tough for Chinese and Indians to get entry visas, as Kuala Lumpur feared an influx of over-stayers adding to the already large Indian and Chinese minorities.

Now Chinese citizens can get

tourist visas from Malaysian embassies - though those living in Singapore, Thailand and Hong Kong have to enter with tour groups. And Indian businessmer or officials, who used to rely on tourist visas unless they had Malaysian sponsors, can get multiple-entry visas. Nothing like an economic crisis for encouraging countries to put out the welcome mat.

Cash register

Singapore's prime minister Goh Chok Tong wants his money - and he's entitled to it, according to the island state's highest court. It decided that his leading political opponent. Joshua leyaretnam, acted out of malice when he told a campaign raily that another opposition politician had complained about the government's tactics in last

A complaint had, indeed, been made but Goh sued on the

grounds that, merely by telling people about it, Jeyaretnam could damage his reputation: people might think he had done something wrong. Jeyaretnam now owes Goh \$\$100,000 (US\$69m) in damages - and the courts half as much again in

But he says he hasn't got the money and that Goh has served him with a "statutory demand" for payment of the damages within 21 days - the first step in bankruptcy proceedings that could end with his resignation

from perfiament. Observer seems to recall that a recent report from the US State Denartment said something about Singapore using legal processes, such as libel and defamation, to stille freedom of speech and intimidate opponents. Singapore always tienies such things happen. That, no doubt, is a comfort to

Unplugged

Investions in India at last have cause to celebrate the country's technological backwardness. The millennium computer bomb isn't going to be much of a problem

there, by all accounts. The chairman of one big multinational recently staried in atnemyed Juoda points to large distribution network. No problem, assured his bankers. their branches didn't use

Financial Jimes

100 years ago A Scandalous Fraud

A most salutary effect ought to be produced in the bye-ways of the City of London by the sentences on the Lupton gang. After a trial that occupied for a whole week the time of a judge, fifteen counsel, twelve jurymen and about fifty exasperated witnesses, it has been declared as proved that the Lydenberg Consolidated Mines imited was a fraud from start to finish - a conclusion that hardly seemed to require so much demonstration. As the result, Lupton himself, who was the arch-conspirator, gets five years' penal servitude. The company's solicitor and another director were each sentenced to a year's hard labour. The sentences were really foregone conclusions in view of the notorious facts of the case about this so-called mining company, which issued no prospectus and appears to have existed merely in the imagination of Louis Simons Lupton, the vendor of the shares. But he was not the only man who took advantage of the Kaffir boom to create fletitious mines in the Transveel, and it would not be difficult to name other

promoters who ought to be

doing five years.

FINANCIAL TIMES



THE LEX COLUMN

Banking on the rouble

These are tense times for Russia's banks, following Fitch IBCA's downgrades to 10 on Friday. Some smaller ones have already gone under. Unhedged exposure to currency forward contracts and foreign borrowing means the rest would probably follow sharply if the rouble devalues. But even if the rouble holds, fraying nerves could still trigger withdrawal of interbank credits and foreign funding from the weaker-looking financial industrial groups, Russia's version of the Korean

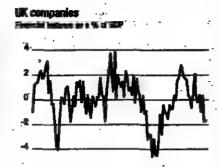
On the bright side, one advantage of Russia's undeveloped banking system, if it collapses, is its limited role in the real economy. Most banks are still basically speculative trading houses, rather than western-style universal banks offering full retail and corporate banking services. Only a handful have attracted significant household deposits. Without capital, credit skills and collateral for loans (even if anyone could afford them given usurious real interest rates), it is no surprise that the banks have failed to provide long-term investment for the economy.

With two-thirds of retail savings held abroad or under the mattress, the average Russian now has relatively little at stake in the hanking system. Since 75 per cent of the remainder is held with state-owned Sberbank, which benefits from a unique deposit guarantee, retail investors are unlikely to run first. How long interbank credit and foreign funding can be maintained is another matter.

Saah

Saab's turnsround seems to be always Motors, which manages the Swedish carmaker it owns jointly with Investor, must quarterly profit in 1995. And a higher than expected first-half loss - nearly Skribn (\$126m) from Skr600m a year ago - makes a target of being profitable in the last quarter of 1998 and throughout 1999 look a

With the best years of this economic cycle squandered, ensuring decent returns on heavy investments in a less favourable managements will r consumer environment will be hard. No repetition of the Danish strike that slowed production of its sporty new models will help. But more must be made of links



with GM to improve Saab's purchasing and production costs. As a low-volume producer with all the marketing costs of its larger competitors, it must exploit available synergies while not compromis-ing the distinctiveness of its own brand.

GM may be preoccupied with its own domestic problems - notably low productivity, too many competing brands and declining market share - to focus on its interest in Saab. However, it has already shown with Opel in Germany that it can take the necessary tough steps to produce competitive European cars, Since Investor is likely to exercise its right to sell GM its 50 per cent holding next year, the cost of neglecting Saab's problems will only

UK profits and cashflow

The squeeze is on. This results season just around the next corner. General has been peppered with cautionary statements. Not only have profits started to fall as a percentage of GDP, but companies are sliding more deeply into a cash-

Should the alarm bells be ringing? Not yet. Both profits and balance sheets are being whittled down from positions of strength. And interest cover of 6-7 times has been comfortably above the historic average of five. It is helpful that interest

Managements will no doubt act to limit the damage to profits by cutting costs, and to cashflow by destocking and curbing capital spending. The danger lies in news on the macro-economic front for the knock-on effects if this brake on shares to come off their lows.

rate belt-tightening threaten the swelling tide of share buybacks? Probably not because tax changes from next April will remove a final barrier. Two typical buyback scenarios remain: passing on the proceeds of refocusing – witness BTR – and plump balance sheets in financial services - Royal & Sun Alliance, for

On top of this, other managements might follow GEC in announcing a buy-back alongside a dividend cut. Such "flexibility" would make it easier for a company to skip part of its distribution for 1999 if the current slowdown does turn into something worse. Now that really would test the theory that dividends have

The bears have sunk their claws into the UK property sector, causing it to underperform the market by 25 per cent in the past six months. But the worst

Valuations may have been stretched in implied growth in 1996 capital values of between 10 and 20 per cent. The growth rate for 1998 will probably be about 8 per cent and half that for 1999. But the larger companies now trade on discounts to NAV of between 15 and 20 per cent. This partly reflects fears that the economic downturn will hold back rental growth. Companies exposed to secondary retail locations and industrial property could stay out of favour.

But in London, a tight market should keep rents growing in the high single dig-its, benefiting the likes of British Land. Land Securities and MEPC.

Furthermore, the sector is in much beter shape than a decade ago. Company balance sheets are not overloaded with debt, and banks have held back from funding speculative development. Property yields are also still higher than gilt yields: as the sector is not experiencing falling rents the gap in yields should provide a floor under current share prices, even if it is not itself sufficient to spark a rerating of the sector. For this to happen, the sector may need more reassuring

Dealers seek legal review of 'grey' car import limits

UK restrictions unfair to consumers, say independent traders

Independent motor traders hivolved in controversial "unofficial" car imports to the UK have applied at the High Court for judicial review of UK government rules restricting

European Commission officials

also believe the UK rules contravens the Treaty of Rome and are expected to urge the Commission to force the UK to rescind them later this year. The motor traders import about 30,000 cars a year - mainly from Japan - at prices up to one-third chesper than "official" dealers.

independent traders handling the

imports claim the UK government's restrictions unfairly protect the interests of official importers and manufacturers, at the expense of UK consumers who, they claim, are eing "grossly overcharged" for cars.

Car companies such as Toyota, Sercedes-Benz and Mitsubishi have fiercely attacked the imports. They claim some cars might not meet European safety or emissions regulations but primarily fear the under-mining of their own profitability. Mercedes-Benz dealers have been

told to report to the manufacturer all "grey" cars brought in for service. Subaru importer International Motors has sucked dealers tempted to sell "grey" cars slongside, their "official" sllocations, and Mitsubishi Motors has ordered its dealers to raise prices sharply of parts and service to "grey" car owners.

The 70-member British Independent Motor Traders Association said at the weekend it had the backing of industry officials at the Commission for its imports.

The association said that DGS officials - the industry directorate at the Commission - told it the rules. were in breach of Article 30 of the Treaty of Rome requiring free move-

Officials of both DGS and DG15, the directorate charged with the enforcement of EU regulations, are expected to ask the Commission to issue a directive ordering the UK

neview bearing in the next law days.
Richard Moore, a Shints official, said:
"We have decided to use all the
weapons available to us to secure an early shangs of position by the gov-

The independent motive traders spotted a loophole in the single vehicle type approval regulations introduced by the UE department of infroduced by the UK department of transport in 1996 that would allow them to induce care bought chesply in Jepan and constries outside Europe. However, in response to pro-tests from "official" car importers, the government also imposed a con-dition that limited to 50 cars a year

Last year the Labour government indicated it would lift all quantitive restrictions on SVA in amended regulations on May I this year. But, under pressure from carmakers, in May 1 it decided to keep the 50 limit

Report warns of hidden fees in European asset management

A leading management consultancy hidden charges in the "expensive services in much of continental

Towers Perrin carried out research. into fees for institutional asset management in Switzerland, Belgium, Germany and the Netherlands. It found a lack of transparency and wide variations between declared fees and those actually charged. Olaf John, the consultant behind

the report, said institutional investors who were "not so educated or aware about types of fees" were failing to account for high charges for services like buying and selling

fees may appear low, it is not they are low but probably because the investor is not seeing all

Only the largest, more interna-

dence of being able to negotiate lower total fees.

The report is particularly critical of the charging system in Germany for hiding management, transaction and safekeeping costs. It blames the fact that universal banks, which dominate the investment management sector, do not separate the cost of different services. The report also

order to ward off competition while maintaining high hidden charges. In some instances, clients think they are paying less than 20 basis points for management services but eventually pay more than 160 basis points a year, mainly because of

have reduced the visible fees in

high commission charges. The report also points out the potential conflict of interest when most of the invasiment managers are subsidiaries of the banks that

provide the transaction services. competition and transparency for from 0171 879 4411

tional investors have shown evi-dence of being able to negotiats glum. He believes the ability of trational asset managers to continue to use hidden charges will diminish with the savent of more competition

In particular, he believes the growth of global custodians, which process investments, will lead to more performence measurement and claims that German asset managers

densinds for greater openness.

Only the Netherlands, which has a larger pool of pension fund assets than elsewisers to continental Europe, cities close to the levels of transparency of fund management charges in the US and UK.

The report, which used figures from 90 investment managers and interviews with clients, found that the Dutch managers offered more competitive prices than their Swiss or Belgian counterparts once all hid-

Copies of Active investment m Mr John also blames a lack of ment charges survey are available

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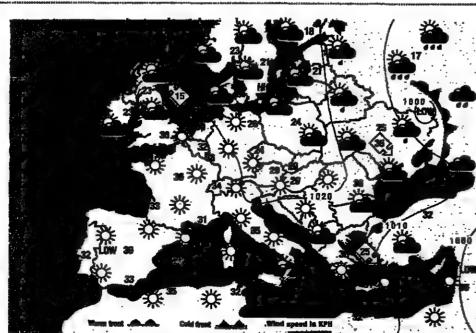
nt said it had launched two offensives. Page 2 Picture: Reuters

Companies & Finance FT.com us craine archive of back issues of 1200 UK pla line: frow to get shere prices and mer

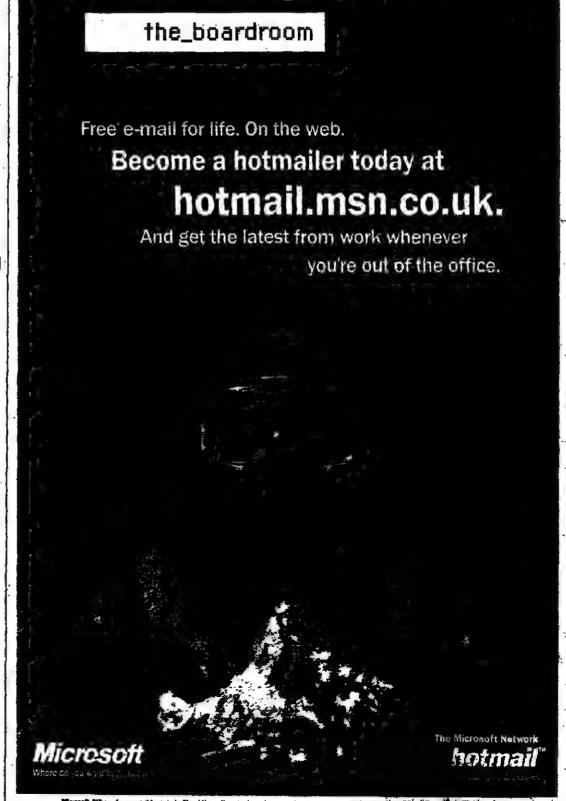
FT WEATHER GUIDE

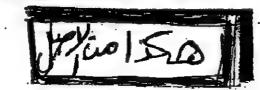
Europe today Finland and northern parts of Sweden and Norway will have scattered showers and spells of Scandinevie it will be mainly dry. although it will be cloudy along em coasts of Norway. The Low Countries, Germany, Aus rland and France will start foggy, clearing to a fine, aunny day. There will be thundery showers in southern Italy, but and the Belkans it will be dry and

Five-day forecast The hot spell in northern Europe will end early in the week. Rain will move across southern parts of the UK and then southwards across western Europe, bringing cools wester. Scandings. will become showery. The raneur will remain hot



TODAY'S TELEPONOMIC WITHOUT CONTRO Jagoo





FINANCIAL TIMES

COMPANIES & MARKETS

MONDAY AUGUST 10 1998



Boost in

M&A for

emerging

Sharp falls in corporate

valuations and large-scale

deregulation, following eco-

numic reforms led by the Inter-

national Monetary Fund.

boosted merger and acquisi-

tion activity in emerging max-

kets during the first half. The number of deals worth

the first six months of this year. This was up sharply from

same period last year and the

88 deals recorded in the second

half, according to Robert Flem-

The total value, however,

remained flat at \$34bn.

nore than \$50m totalled 119 in

markets

Chase wins euro clearing contract

Chase Menhattan Bank has won a "substantial" contract from J.P. Morgan, the US investment hank, to handle clearing for all dealing in the planned euro currency. Global banks are greamlining their clearing systems before the introduction of the single European currency ment January. Page 15

Bank props up Canadian dollar

At the end of last week the Canadians intervened in the market at all levels to buy their ailing currency, whose slide has been long rather than steep. Recently the Canadian

dollar has hit a post-1858 low almost every day. The central bank is now the main buver in the market, so traders will simply have to calculate if it will buy more than they can sail. Currencies, Page 20

Project financiers hit by Asla

The Asian crisis has presented project financiers with collapsing currencies and economic growth ates throughout most of the region, sending the value of infrastructure projects plummeting. The denouement is going to be painful for the banking sector. Project Finance, Page 16

Siemens shake-up raises new ideas

of hidden feesing

t management

il.msn.co.

HOU!



The decision last week by Siemens, the Gernan electrical engineering empire, to close its computer chip plant in the north-east of England, was only one part of a wider overhaul that analysis now expect at Siemens. The 10-point restructuring programme outlined test

month by Heinrich von Pierer (left), chairman, aised ideas that would have been unheard of a few months ago. Market Movers, Page 15

Mexican election woes worry traders Investors in Mexico are focused on a future in which Mexico's economy and that of the US colossus to its north are expected to decelerate and where political wrangles may disrupt the nun-up to presidential elections in 2000 - rather than on a robust set of interim corporate results. Emerging Markets, Page 16

Postabank promises finance probe Shareholders of Postabank, Hungary's troubled bank, have been promised by its new management that an investigation into its finances will be a top priority. Page 15 ...

Results to shed light on sectors Several Footsle companies, such as British Airways and Orange, are set to post results this ek that should throw light on conditions in their sectors. Sterling's strength and the Asian woes that have hit recent UK companies' date will still figure. Companies Diary, Page 18

FT GUIDE TO THE WEEK

- full listings Page 30

GOLDMAN SACHS TO VOTE ON IPO Partners at Goldman Sachs, the US investment bank, are today expected to vote at a monthly meeting on whether to sell between 10 and 15 per cant of the group in an Initial public offering. BREAKAWAY ISLAND

Residents of Nevis, the Caribbean Island, today vote on whether to leave the St Kitts-Nevis federation and become the world's smallest hation, with 10,000 people. ARAFAT IN CAPE TOWN

Palestinian president Yassir Arafat begins a visit to South Africa tomorrow. UK INFLATION OUTLOOK

The Bank of England's official outlook for inflation is published on Wednesday in its quarterly Inflation Report. .

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UBS cools on Japanese alliance

LTCB removed from brand names of joint ventures

The future of the first comprehensive 'alliance between a Japanese and a URS Brinson Asset Managetain. United Bank of Switnerland has removed any reference to Long Term Credit Bank from the brand name of its joint venture with the Japa- LTCB's commitment to the nese bank and is considering alliance". buying the 50 per cent of the joint venture that it does not

The Swiss bank has told clients in recent days that the investment bank joint venture will now be called by its global. brand name of Warburg Dillon

Insurance, telecommunica-

tions and transport companies

are most at risk of disruption

from the introduction of Euro-

pean economic and monetary union, according to the first

report to examine individual

The three sectors are the

most likely to suffer a "signifi-

cant impact" from the start of

the single currency, the euro,

Breweries, pubs and hotels

are thought to be least at risk

from the introduction of the

Management Consulting in

throw up "winners and losers"

among European business

against five key issues which

firms face as they cope with

the introduction of the euro,"

parency, readiness, industry

ance, telecommunications and

transport sectors as highly vul-

nerable in four out of the five

Leo Martin, a senior econo-

in January next year.

market sectors.

single currency.

the report states.

INSURANCE, TELECOMS AND TRANSPORT AT RISK

Survey identifies

sectors set to be

disrupted by euro

London, say the euro will from 1999 and many more will

each industry sector by many banks

systems impact, price trans- possibilities of Emu.

that will go through signifi-

cant change, but it doesn't mean that individual compa-

Banking, utilities and phar-

maceutical companies were also in the "high risk" cate-

gory. The KPMG survey rated

the banking sector as signifi-

cently volnerable in terms of

industry structure, systems

"In some sectors, such as

"Indeed, our experience is

that many financial sector-

organisations will fail to be

fully ready to trade in euros

struggle as the demand for

banking and retail, the chal-

lenges of preparing systems

are proving extremely costly

and time-consuming.

in system changes.

nies will do badly."

joint venture will be called have the option of purchasing ment instead of LTCB UBS Brinson UBS insists that the move "does not change the

structure" of the joint venture or "reflect any diminution in However, the switch will fuel suspicions that the alliance could unravel, following

an announcement in June that LTCB is discussing a merger with Sumitomo Trust. Although UBS and LTCB have not revealed details of

In addition, the future of Sumitomo Trust's possible

the stake if LTCB goes ahead with its merger with Sumi-

reluctant to make any immediate decision on the alliance, partly because it does not wish to trigger possible criticism in Japan that it has hastily "abandoned" the troubled

merger with LTCB will not become clear until the Financial Supervisory Agency, Japan's banking regulator,

Meanwhile, UBS is holding discussions with Sumitomo Trust, However, Sumitomo

Trust appears uncertain on whether it would wish to take part in the alliance and UBS remains wary of becoming too deeply embroiled in the Sumitomo "keiretsu", or business

LTCB group is now being viewed as a crucial test case ing sector - failure to find a solution to LTCB's problems could damage market confidence. LTCB's share price

below its par value.

The case has become particularly striking because Sumitomo Trust has musted that it will only assume the healthy assets of LTCB and will not "bail out" the group.

The Japanese government should reassure Sumitomo Trust about the health of the

However, Sumitomo Trust has also decided to hire Arthur Andersen, the UK accountancy group, to audit LTCB's assets. If these audits differ, or if they are concealed from the market the credibility of the FSA could be undermined, some

> because of sharp falls in merging market currencies. Purchases by corporate groups from developed countries accounted for 85 per cent of total transactions. Buoyant M&A activity in developing

countries is expected to con-tinue throughout the year. The strong interest in merging market assets among corporate investors contrasts starkly with attitudes of western portfolio managers and retail investors, who continue to shun emerging market equiof risk among multinationals that they may lose the opportunity to invest if they miss this chance," says Lourence Heyworth, director of Fleming's global emerging markets

Latin American corporations were the most favoured targets in the first balf, with 46 deals worth \$16bn. Asia followed with 45 deals worth \$11bn, while eastern Europe, the Middle East and Africa accounted for 28 deals worth \$3bn.

By sector, financial institutions led the cross-border deals, totalling \$7.5bn. Telecommunications, and airlines and airports followed, both totalling \$5.4bn, while utilities totailed \$2.9bn.

In Asia, South Korea and Thailand attracted the most bidding from international corporations. South Korea saw 15 deals worth \$5.4bn, while deals in Thailand totalled 15 worth

In Latin America, Argentina was the most popular, with total deals amounting to \$7.2bm, while in Brazil there were 15 deals totalling \$5.2bn. In Asia, US companies invested a total of \$3.1bn. while in Latin America they



Seab's first-half losses rose sharply after production stoppages at the Swedish group, half-owned by Genera

BOC to cut 3,800 jobs as strong pound and Asia hurt UK industry

euro usage grows," the report BOC, the industrial gases "This analysis is based on an . Mr. Martin said that retail group, is expected to announce . assessment of each sector banking's IT needs were so up to 3,800 job cuts around the large that some banks were world tomorrow following a

being "buried up to their ears" The size of projects and the The unpublished report resources they required meant British industry. vulnerability on five issues: consider the wider marketing

BOC's decision to cut up to profits. 10 per cent of its 38,000-strong Utilities, such as gas and structure and post-Emu stabil- electricity companies, were ity pact. It ranked the insur- vulnerable to disruption from billing and systems changes. at least 1,500 jobs in the UK, or The effects of the Maastricht treaty and the stability pact about 4 per cent of its workreducing state subsidies and force. Rover blamed the strong encouraging privatisation pound for its problems, while mist at KPMC, said: "Vulnera-bility measures the sectors consolidation in the sectors. Siemens, the German electronics giant, blamed the Asian cri- supplied by BOC, has a large-scale reorganisation.

sis for its recent decision to increased the company's probshut down its semiconductor lens. plant in the north of England at a cost of 1,100 jobs.

Danny Rosenkranz, BOC chief executive, launched the come as further evidence of problems with the company's sentation tomorrow. the toll the Asian crisis and a distribution business and the strong pound lad to a 17 per

. The worst performing diviworkforce comes less than a sions were vacuum technolmonth after Rover, the car ogy, which supplies the semigroup, announced plans to cut conductor business and reported a 15 per cent drop in operating profits, and distribution services, which fell 19 per cent. Weakness in the semi-

conductor industry, which is

Analysts estimate about 1,000 of the job losses will

come from the UK. They also expect BOC to announce a sigreview of the company in May niflcant restructuring charge The announcement will after weak demand in Asia, at its third quarter results pre-BT Alex Brown, the company's broker, forecast a charge

cant drop in interim pre-tax of about £130m (\$214m) to cover the restructuring in a report written two weeks ago. It expects the group to write down "significant assets". The broker also estimated the charge could lead to

savings of between £50m and 260m over the next three years. Others expect BOC to want greater savings as part of

SIMON DAVIES **GLOBAL INVESTOR**

Fears beneath the froth

considerably below their peaks and a battalion of stock market bears re-emerging from the woods, spare a thought for

venture capitalists. This merry band has been a steady producer of the froth on the surface of the latter stages of the bull market, and it must now contain a number of pervous participants

The venture capital industry mill recently was in a delightfully virtuous circle. Institutional investors, nervous about stock market valuations, were pumping surplus cash into alternative investments offering potentially higher returns. Venture capitalists have been prime recipients

Some of this money has been channelled back into the stock market through buyouts of listed conglomerates such as the UK's BTR.

And this in turn fuelled the feel-good factor in equities, generating more cash for venture capital funds. CVC Capital Partners recently. raised a \$3tm European fund. and this pales by comparison. with the US, where an estimated \$23bn was raised in

the second quarter of 1998. With the benefit of gearing. which has been aided by the return of the junk bond, this provides enormous firepower. But venture capitalists require fund investors, lenders

happy to provide the required leverage, and a convenient neans of exiting investments. These all require a positive stock market environment.

transatlantic blockbuster, Goldilocks The Revenge, where the markets' beroine is finally burnt out by the

So what happens if the bull market has stalled? Certainly, that is bad news for venture capital funds that have just spent all their money. It has become increusingly

difficult to see how they could make profitable exits from recent investments. Competition has emerged from growing numbers of venture capital groups, and also from the so-called principal finance arms of investment banks.

Prices have escalated. UK packaging group Rezem recently complained it could not justify acquisitions at . criticism of the prices venture capitalists bave paid for

packaging deals. Of course, venture capitalists can gear up to levels that listed companies would blanch at, giving them a lower cost of capital - equity investors require returns considerably higher than the current cost of debt. This means they can pay more for businesses and still meet high

- Nonetheless, they still have to sell their investments at some stage. The Rexams of this world will be unwilling to buy the businesses second time around. And if the bull market goes into reverse then profitable stock market exits will be hard to come by. • But before shedding tears for

venture capitalists the

equity return targets.

should be considered. One innovation from the US is the payment of fat fees on funds. whether invested or not. And then there is the whole

issue of "moral hazard". If a deal is successful, the fund managers take a large slice of the profits – normally 20 per cent, sometimes more. If the deal is a disaster

however, the fund, and not the fund manager, takes the loss. Such a structure looks designed to encourage risks. After all, a bull market will cover up most bad investments, and accounting policies can cover some more.

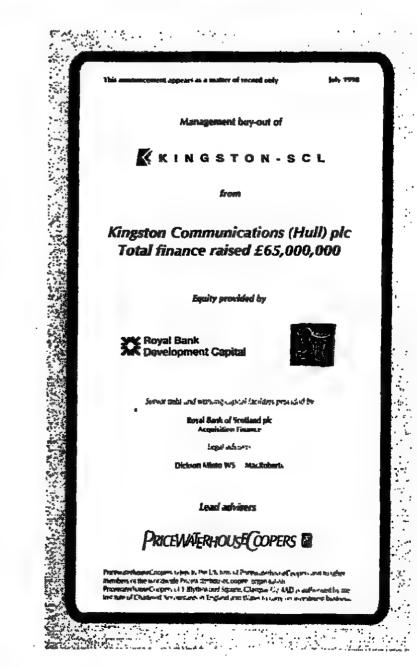
Moreover, much of the investment risk actually falls into the laps of the debt holders, such as junk bond

Several disasters will damage the venture capital fund manager's reputation and inhibit its fundraising abilities, but that is a limited downside. For many venture capital groups, however, a stock market crash might even be a blessing in disguise. A crash will flush out the less committed or skilled participants and bring down business valuations, allowing

After the 1987 crash, leveraged funds had several years of mediccre performance. But the best investment groups continued to make good returns, Even if the latest decline in the stock market is but a hiccup, that pattern must inevitably

a more profitable investment

cycle to emerge.



last ten years, profits growth

Bank mergers fail to deliver investor value

Merger activity among European banks has accelerated in the last 18 months. yet most mergers in the sec- as 17 per cent. tor have failed to deliver Mitchell Madison, the management consultancy.

Bank mergers and acquisitions totalled more than £40bn in 1997 and have reached £25bn so far this year. But the study found

The sale of MTL, the

since February after shelv-

reluctant to meet its price

expectations.

Metroline for \$41.50.

tion in the sector.

Interest has since waned

underperformed the rest of the sector in 60 per cent of introduction of the single

value to their investors, not been successful in the according to a study by majority of cases in extracting value from mergers. That is not to say that the value is not there in the first place", said Constantine Psaltis, a partner at Mitchell Madison.

returns to shareholders of turing a dominant market the financial sector, even just 9 per cent annual ucts and reducing costs. the acquiring bank had position would not work in among companies which did Europe, as a result of the not merge. deals, sometimes by as much currency. "The biggest bank financial groups failed to

in Europe has a European "Bank management has level market share of about 3 average for shareholder per cent. In order to get to the kind of scale that might give them market power ciation. Despite steady to shareholders. they would have to merge several times over." A broader study of 251

has diverged widely. US groups averaged 21 per cent per annum and UK companies conducted by Andersen Consulting found that below par shareholder

Of Mine, Holland Dozier Hol-

they put a price tag on their

achievements by staging a

The Holland Dozier Hol-

land issue, which will be

repaid by the royalties gen-

erated by 300 of their songs

over 15 years, follows last

autumn's \$55m "Bowle

bond", with which David

Bowie became the first pop

star to persuade investors to

suade other musicians, com-

posers and record producers to launch similar issues. In

the short term, they see

"royalty bonds" as lucrative

new products at a time

investors are looking for

alternatives to low-yielding

Treasury bonds, and some

banks also have the longer

term aim of usurping record labels and music publishers

as regular sources of funding

for rock stars and songwri

Royalty bonds also offer

tax advantages to stars, who

receive the cash upfront but

are not taxed on it until they

have earned the royalties.

However, some artists are

their images by being seen

to court the financial mar-

If the banks succeed, the

relationship between the

worried about tarnishing

gamble on his talent. Banks are trying to per-

\$30m (218.1m) bond issue.

that, over the last decade, that mergers aimed at cap- returns were widespread in Spain and Italy came in at linating unprofitable prodgrowth, while France and lapan saw profits shrink.

> Andersen found the gap More than 40 per cent of between winners and losers was widening, with a small match their local market elite - dominated by companies in the US, the UK and returns, including dividends Australia - delivering value as well as share price appre-The recipes for success growth in revenues over the

> Barclays in the UK or Citibank in the US squeezed companies 16 per cent, but or less flat revenues by elim-

'Consolidators' such as Lloyds TSB or Travelers Group, the US insurer seekmg to marge with Citibank, bought' growth through mergers and sought to pay for it with cost savings.

A few innovators, such as Charles Schwab in the US or Banca Fideeram in Italy, varied. 'Optimisers' such as were able to identify new trends in costomer habits or merical conditions and genmaximum profits from more exate high revenue growth

COMMENT

BOC

or to handle euro

ne use di

of the ip Morgan

Another week, another redundancy drive in the manufacturing. As if Royer's job cuts and Siemens' closure of its Tyneside semiconductor plant had not done the trick, industrial gases group BOC's plans to key off up to its percent of its workforce will ram home the impact of the Asian crisis and the strong pound. Again it is the wos-struck-semiconductor industry and sterling's impact on competitiveness - not Gordon Brown's bugbeer of poor productivity - that is immediately responsible for lengthening dole queues. For BOC to board labour - so constraining its ownproductivity - in the hope of an upturn makes little se given the gravity of the semiconductor industry

Taking 250-250m off the cost base should help erode the company's double-digit discount to the market. From eastment perspective BOC deserves applicase for actions others will follow soon enough.

Racal Electronics

Racal was trying to put on a brave face yesterday. Sir-Ernest Harrison, chairman, talked of creating shareholder value, but investors will not find a trace of it in the sorry saga of data communications. The hefty \$234m loss on the unit's disposal is a painful lesson to shareholders to agitate

sponer for action on failing businesses. What of Racal going forward? Bulls hope the current nt surrounding telecoms will rub off on one of Racal's businesses - a national fibre-optic network. But the operation rightly deserves a heity discount to stars such as Energis and Colt. Nearly half its turnover comes from contracts with train operators, inherited as part of the old-British Rail communications network, where margins look likely to come under pressure. And Racel has yet to establish a track record of aggressive growth in its business for corporate customer services. Alliances, such as its recent one with Colt, are positive, but do not yet represent significant new revenue flows.

Putting telecome on a moderate rating of twice sales suggests it might be worth £580m. But a sum-of-the parts calculation for the group as a whole, minus debt, gives a value of only 21.15m against yesterday's market value of filbn. To produce some real shareholder value, Racal needs to either float or sell its telecoms unit at a good price.

NEWS DIGEST

LEISURE

Fitness First makes move into Germany

Fitness First, the Aim-listed health and fitness club operator, has bought a 50 per cent stake in Fitness Com-pany, Germany's second largest health club operator, and 's njected "significant" additional capital at a total cost of

The deal marks the first move by a British fitness chib company into Germany. The acquisition is to be financed in part by the issue of 400,000 shares in Fitness First at 320p and partly by a placing of 1,64m shares at 333p, raising 25.3m net. The balance will be financed by bank borrowings. In addition, two Fitness First directors are each disposing of 595,157 shares at the issue price.

The vendors, who are to run Fitness Company as a joint venture with Fitness First, have warranted that the Germangroup will generate profits before interest, tax, depreciation and amortisation of at least DMS.4m for the year to December 31. Mark Turner

REMUNERATION

FI rewards the board

Hillary Cropper, chief executive of FI Group, received a 27 per cent increase in her total remuneration package to £338,388 last year, according to the computer services group's annual report. Her increase was part of a similar sized rise in the total amount paid to the 10 board members, who received £1.24m between them. Among the board members, Lyn Barrat, commercial director, received an increase of 41 per cent to £187,111, and David Best, finance director, saw his remuneration rise 32 per cent to £209,136. Christopher Price

FINANCIAL REPORTING

H&C Furnishings revises accounts

H&C Furnishings, now renamed Harveys Furnishings, has revised its accounts for the year to April 1997 following intervention by the Financial Reporting Review Panel - the accounting watchdog. The panel disagreed with the com-pany on a point of principle in accounting for the acquisi-tion of Harveya Holdings — a larger unlisted company. It also found several instances of non-disclosure of data. The revised accounts were published yesterday in the company's annual report for 1998 - complete with 13 pages of corrections. The auditors were Coopers & Lybrand. Jim Kelly

RETAILERS

Electronics Boutique on track

Electronics Boutique, the PC software and video games retailer, is to open 20 more stores before Christmas. The group, which trades from 158 outlets, 13 of which were added in the first half-year, said its new-release schedule for the second half of the year was "very strong". It said continuing strong demand for video game consoles ensured that trading during the first half of the current financial year was well ahead of the corresponding period

MINING

Firestone Diamonds in £2m listing

Firestone Diamonds, the mining and exploration company. is raising £2.14m gross via a placing of 1.88m shares on Aim at 114p, capitalising the company at £25.7m. Dealings are due to start on August 14, John East & Partners is the nominated actviser, and Burrough Johnstone and IA Prite-

ENGINEERING

Approaches for ailing Crabtree

Crabtree, the can angineering group, has received a number of approaches for the business, including one from management. The announcement comes with a warning that second-half profits will not be better than last year's as forecast in May. The group expects to record a loss for the full year compared with a pre-tax profit of £110,000 feet the year to September 30 1997. Crebtree cited a slowdown in order flow and problems with the installation of new machinery among the problems affecting profits.

MTL sale runs Bonds have more fun as banks rock'n'roll into difficulties Alice Rawsthorn and Jeremy Grant on moves to get investors to gamble on rock s the composits as Baby sic songs such as Baby Love and This Old Heart s the composers of clasover high price

land are rated among the world's most successful sonewriters, and last week

Go-Ahead, the bus and

largely owned by its 2,500 workers, is thought to be about 10 per cent of the bus seeking about £80m (\$132m) including the Merseyrail Electrics and Regional Rail-ways North East franchises. substantial disposals if it acquired MTL, which has 60 Last month. MTL sold its per cent of the market.

London bus franchise, regarded as the most attractive part of the group, to for a stock market flotation When MTL was put up for sale, most of the UK's leading transport operators throughout that his objecexpressed an interest, partly tive is to maximise value for because it represents one of the last opportunities to make a substantial acquisi- the company could face difficulties in attracting inves-

because of doubts about the flotation plan. quality of the Merseyside The flotation was aban- sales of about £450m. It oper-

doned after a wave of one ates bus services in Liverday strikes at Merseyrail Electrics over pay and work-Stagecoach and Fir- by its employees in 1992

stGroup, two of the UK's from the local authority. largest transport operators. Interest in a sale increased have withdrawn from the last December with the bidding in the past month. Stagecoach lost interest sion in the buy-back agreeafter acquiring a 49 per cent ment which obliged sharestake in Richard Branson's holders to hand back 40 per

don operations.

Of the two remaining bid-Merseyside bus company ders, Arriva, the Sunderlandbased bus and motor group. that has been on the market recently pulled out of negotiing plans for a flotation, is ations because it felt MTL thought to have run into dif- was demanding too high a ficulties because bidders are price for the business.

train group, is thought still The group, which is to be in negotiations. Arriva, which already has market in Liverpool, was understood to be concerned that it would have to make

> MTL has not ruled out the possibility of reviving plans if its price expectations are not met. Peter Coombes, chairman of MTL, has said the company's shareholders. However, analysts believe

Following the sale of its London operations, MTL has pool as well as the rail fran-

tors if it tried to revert to the

The company was bought expiry of a clawback provi-Virgin Rail at the beginning cent of the proceeds to the of July. FirstGroup with- local authority.

Braathens suffers 25% first-half fall

By Valeria Skilid, in Osio

Braathens, Norway's largest domestic airline, blamed costs in preparing for the opening of the country's new international airport in Gardemoen, a traffic controllers strike in Norway and a loss from its Swedish operations. Net profit fell 25 per cent to NKr127m. (£10.5m) for the

from NKr2.7bn to NKr3.1bn, lifted by the NK117m sale of four aircraft, which was offweaker first half-results on set by a NKr65m fall in revenue from a union strike in

> Profits were also affected by a NKr41m loss in Braathens Sweden, mainly from ils Stockholm-Sundsvall und Stockholm-Oestersund routes, causing it to shut these operations in July.

multinational entertainment groups which dominate the even attempt to persuade says the Holland Dozier Holglobal music market, and the artists or composers who rock star's future. create their assets, will change dramatically. The now a 40 year-old phenomechallenge from the banks non and represented the rating agency, says that, as comes at a sensitive time in bulk of the \$38.1bn of more deals are done, inves-

the music industry when the records and \$6.25m of music tors will feel increasingly any star whose career has record labels' traditional role publishing rights sold worldas music distributors is already being challenged by the internet.

"Traditionally, record companies have acted as bankers by paying advances to artists against future royalties in return for the rights to their work; in future, established artists will get their advances from banks and keep the rights for them-selves," said David Pullman, managing director of Pullman Group, the US bank behind the Holland Dozier Holland tame.

However, the banks' chances of establishing roy-



their success at nurturing movie soundtracks. long term demand among investors and artists. Until

However, rock'n'roll is wide last year.

It is virtually impossible to predict the long term earnings potential of young acts, such as the Spice Girls, whose future hung in the balance after Geri Ralliwell's recent resignation, or the Verve, which is still struggling to adjust to the departure of Nick McCabe, its bass guitarist. Yet investors can be fairly confident that if David Bowie's classic 1970s albums and Holland Dozier Holiand's 1960s hits have remained popular for 20 or 30 years, they will continue to generate royalties from

record sales, radio airplay,

ket will be determined by television commercials and So far the only one to agree Holland Dozier Holland, is

So far, investors have seemed enthusiastic about recently, it would have royalty bonds. The "Bowie seemed silly to imagine that bond was heavily over-suban investment bank would scribed, and Mr Pullman investors to gamble on a land issue was also well-re-

Jeremy Church, an analyst. at Duff & Phelps, the credit the risks and future issues

will be sewn up faster. Yet there is a risk that demand for royalty issues could diminish if interest rates rise and yields on Treasury bonds improve. Alexander Batcharov, an assetbacked securities analyst at Merrill Lynch, suspects that investors' interest may prove short-lived. He sees rovalty bonds as "esoteric, exotic" products, rather than substantial or long-lasting". Superstar musicians and

composers seem to share his misgivings. Dozens of banks have been trying to tempt who secured a \$15.4m securitised loan from Nomura this spring. Bernie Taupin, who wrote the lyrics for many of Elton John's hits, including Candle In The Wind and Crocodile Rock, is also under stood to considering a bond

other than David Bowle and

Rod Stewart, the rock singer

According to Mr Pullman, and earns at least \$200,000 in annual royalties could issue a bond or, like Rod Stewart. clinch a securitised loan which will later form part of a joint issue with other art-

Banks also face the prob-lem that the highest-earning stars (and therefore the most attractive investment vehicles) are, by definition, least likely to require additional capital. Convincing them that they need even more money could be as big an obstacle to the banks' chances of muscling into rock'n'roll as investors' scep-

six months ended June 30 alty bonds as a durable mar-MAYER BROWN & PLATE AS PART OF ITS EXPANSION IN RUSSIA IS PLEASED TO ANNOUNCE THE RELOCATION OF ITS MOSCOW OFFICE TO PAVELETSKAYA SQUARE IL - I Valovaya Street TH PLOOR 113054 Moscow TELEPHONE: (7-502):937-0500 FACSIMILE (7.502) 987 0501 200 · Chicago · Berlin · Kohi · Houston · London Los Angeles • New York • Washington D.C. Almary - Ashgabat - Bishkek - Moscaw - Tashkeri Independent Mexico City Correspondent Jameeni, Navarreie, Nader v Rojas, S.C. Independent Paris Correspondent

Lambert Armeniades & Lee

AUGUST 1998

E! Entertainment TV in talks about UK launch

E! Entertainment Television, the Los Angeles-based cable and satellite network, is talking to partners about launching a UK channel. The network, which is

owned by several US cable groups and the Walt Disney Company, has held talkswith British Sky Broadcast-ing, the UK satellite broad-Although the discussions

are said to be at an early stage, it is thought possible BSkyB could take a stake in a UK version of E! Entertain-El broadcasts celebrity interviews, talk shows, news, movies, comedy and fashion programming to 50m.

cable and satellite subscrib-

ers. The service has also

and Spain.

El would need regulatory UK. It has also talked to other potential UK pariners, which may include cable and digital terrestrial groups.

BSkyB said it was keen to "have the finest range of channels as possible". Its 200-channel digital satellite service goes on air in the

BSkyB has entered into several joint ventures. It has stakes in Nickelodeon, the children's channel controlled by Viacom, the US media group, and QVC, the shop-

ping channel. E! already provides programmes to BSkyB and Granada Sky Broadcasting, the joint venture between Granada Media Group and Flextech and the BBC.

launched in Latin America BSkyB. It has also supplied programming to ITV. Comcast, the US cable

El, and Disney 39 per cent. Two other cable operators, Liberty Media, the programming arm of Tele-Communications Inc. and MediaOne own the remainder, . Earlier this year, El-announced the creation of

Style, a fashion and design nnel. It will go on air in the US in October. Company executives are also considering launching channels in Italy, Germany, France and Poland.

BSkyB recently announced 17 channels for its digital service. It has struck agreements with Discovery Networks, Flextech and UKTV the joint venture between

Call for Midshires' meeting

A pro-mutual pressure group is set to call for a special general meeting which it hopes will scupper the £750m. (\$1.24bn) bid proposal for Birmingham Midshires, the building society writes Jane Save our Building Societ-

ies said it would seek sup-port from 100 Midshires

vider. Bob Goodall, SOB co-ordinator, said the threat. of such a meeting had of Scotland bid for Midshires.

earlier this year. The pressure group, which members to convene the has 200 members who also meeting if its proposals were hold membership of Mid-

not included in the transfer shires, has drafted six reso-document for the bid futions on the bid, including launched by Halifax, the one which rejects the demu-UK's biggest home loans pro- tualisation altogether. Another resolution calls for the board to "accept only the highest financial offer for helped end the Royal Bank the society". Under Halifax's proposals, announced two eks ago, one million Midaverage windfalls of about

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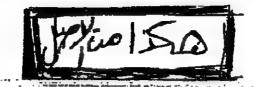
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Recal Destruction

Chase to handle euro clearing for J P Morgan

Chase Manhattan Bank has won a "substantial" contract from J.P. Morgan, the US investment bank, to handle clearing for all deating in the planned euro currency. International banks are streamlining their clearing systems shead of the introduction of the single European currency in January, 1999.

They are switching from using separate clearing agents for the various European currencies in which they deal. J.P. Morgan will use a centralised clearing hub operated by Chase from Frankfurt, which will cover euro-denominated securities transactions made in J.P. Morgan's deal-

Richard Lowry, senior vice-president for Chase Treasury Solutions, said it was not possible to say how much J.P. Morgan had paid for the system, as contract size partly depended on the eventual level of trading patterns in the euro. But he said many banks intend to have similar clearing systems before the end of next month in a bid to ensure the systems are installed in time. Jeremy Grant

JAPANESE ELECTRONICS

Casio plans Y15bn buy-back

Casio, the Japanese electronics group, announced plans for a Y15bn (\$103m) share buy-back as part of an effort to improve shareholder equity. The move, which would involve 3.6 per cent of its shares, was prompted by requests from foreign stockholders, the company said. Foreigners own stakes amounting to 6.3 per cent of the group. In May, the group said it would buy back up to 72.5m shares, 26 per cent of its issued share capital to lift the return on equity. In the year to March, shareholder equity lumped to 6.6 per cent, from 2.1 per cent a year earlier. Net earnings trebled to Y11.7bn less year, on sales up 9.8 per cent to Y510bn. Alexandra Harney, Tokyo

NEW ZEALAND FORESTRY

Setback for Carter Holt Harvey

Problems in Asia were responsible for a 74 per cent drop in first-quarter profits at forestry group Carter Holt Harvey. The company, controlled by International Paper of the US, made profits of NZ\$12m (US\$6m), down from NZ\$49m a year earlier, on sales 8 per cent lower at NZ\$694m, It said weaker Asian export markets were the biggest problem, most evident in the forest sector, where exports fell 78 per cent. The company's Chilean associate Copec was also affected by the Asian problems. Terry Hall, Wellington

CANADIAN PUBLISHING

All-round rise at Thomson

Thomson, the Canadian publishing group, saw improvements in its operations across the board to produce a 67 per cent advance in operating earnings in the second quarter compared with the same period in 1997. Earnings rose to US\$72m, or 12 cents a share, from US\$43m. excluding a one-time gain of US\$1.37bb, or US\$2.24 per share, from the sale of its leisure travel interests in May. Profits in each of Thomson's three main divisions improved, led by 14 per cent earnings growth in the financial and professional publishing arm. Thomson complete 24 separate acquisitions worth US\$690m in the first half of the year. Edward Alden, Toronto

SINGAPORE MEDIA

Restructuring at SPH-

Singapore Press Holdings (SPH), the city-state's leading media group, has announced a complicated restructuring that will enable it to overcome restrictions on buying back shares. The exercise - to be completed by November, involves reducing the company's issued share capital by about 10 per cent and returning about \$\$495.9m (US\$284m) to shareholders. The Asian crisis, has resulted in a flurry of buy-backs as companies try to minimise selfing of their shares. SPH, which publishes a dozen newspapers, will still have about S\$1.2bn after the restructuring, which it said would give it ample room to "take advantage of opportunities that come along". Shella McNulty, Singapore

Probe into Siemens prepares to throw the switch for change **Postabank finances** promised

An investigation into its finances will be a high priority at Postabenk, Hungary's troubled bank, shareholders have been promised by the new manas

Zsigmond Jarai, Hungarian finance minister, also told an extraordinary meeting on Friday that additional taxpayers' money would have to be injected into the bank to maintain its stabil-

Off-balance sheet limbilities were disclosed for the first time on Friday, of about Pt102m (\$170m).

The previous management, replaced on Friday, had exceeded legal limits and undertaken excessive risks in its investments, Mr

He did not rule out privatisation of the bank in the long term. although it assets and concentrate on improving services as a state-owned bank. Non-core assets include property in Spain, a brokerage, property and media concerns and a

wine trading company. The bank, Hungary's third largest, lost Ft13bn last year, according to an audit by Deloitte and Touche. However, Deloitte's Judit Lado said the auditor's report did not reflect the real size of

Mr Jarai said the losses would be tens of billions of forints. They had been covered by overvaluing assets. Local press reports have said KPMG - the auditor acting on behalf of the regula-tor that is in charge of the bank - is expected to reveal this month that the Spanish property portfolio was entered in Postabank's books this year at several times its real value.

Carphone Warehouse expands

Carphone Warehouse, the UK mobile telephone retailer, has established a presence in Scandinavia by acquiring GEAB, the Swed-Tim Burt in Stockholm.

The acquisition follows talks with GEAB's owner between Telia of Sweden, PTT Telecom of the Netherlands and Swiss PTT.

GEAB's knowledge in Scandinavia, where mobile phone per cent, against 16 per cent | in recent memory.

Restructuring plan delights investors but details are short, write Graham Bowley and Frederick Studemann Market

Unlike many of Germany's proud business leaders. Heinrich von Pierer is happy to have his speeches interrupted by the trilling of a mobile phone. "I have nothing against mobiles - as ong as they are made by Siemens," jokes the chairits shares on the New York man of the German electri-

cal engineering empire. At the moment, however, too few of Siemens' businesses are producing sweet music for Mr von Pierer's ears. Last week the increasingly parlous state of the company's loss-making semiconductor business was highlighted when the company said it would close its chip plant in the north-east of England, with the loss of 1.100 jobs.

But the closure of the British plant, an embarrassment for Siemens after less than two years of operation, is only one part of a wider now expect at Siemens.

Last month Mr von Pierer gave an indication of what might be around the corner when he unveiled what he described as a sweeping restructuring of his vast industrial empire. The a dismal backdrop of downgraded profit expectations for the company and a largely gloomy picture of Siemens' sprawling portfolio

At face value, the 10-point cut-throat competition, esperestructuring programme is cially from Asia – by selling revolutionary for Siemens. Mr von Pierer raised ideas Taiwan. At the same time, it shares soured 17 per cent

which would have been unheard of only a few

months ago. He promised to sell poorly performing businesses and spin off divisions by giving them separate stock exchange listings; he hinted at job cuts; and he said Siemens would modernise by adopting more transparent US-style accounting prac-

Stock Exchange. This was what investors wanted to hear. They had clamoured for change at Siemens, but until then Mr von Pierer had stood resolute. A strong defender of Standort Deutschland [Germany as a manufacturing location]. he believed he could reconcile the demands of shareholders with those of his workers, and that there were important synergies to be gained from being a conglomerate with several different busi-

This position is not without political support in Germany, where unemployment pressure not to upset the economic and social order. -To his credit. Mr von Pierer had already taken some important steps to rationalise his empire. The industry chief, who is a close friend of Germany's chancel-

has aiready cut Siemens workforce by 60,000. In April. Siemens-Nixdorf production - where, just as in semiconductors, it faces its activities to Acer of

lor, Helmat Kohl, boasts he

In the event. Siemens'



Reinrich von Pierer, has identified trouble spots

more clearly by bundling together public and private telephone network businesses along with what remained of its computer activities. In June, Mr von Pierer sold its stake in troubled telecoms group GPT to GEC of the UK

But for most investors. this was not enough. To them it was tinkering at the edges, and their criticisms remain: Siemens has too 100 dependent on slow-growing western European markets. "Siemens needs to define what exactly it is." said Sean Faughnan, analyst at J.P. Morgan in London.

In fact, the restructuring programme is quite short on detail. It gives the impression of being rushed: bankers say Siemens had not planned to publish the programme until November, but rushed it out to stop its shares plunging after realising how poor its latest results were.

after the announcement, but analysts say the group could face a sharp backlash if it does not put flesh on the bones of its ideas soon. They expect further details in

firmer commitments). I'm not as excited as I am about Alcatel or ABB (companies that are restructuring more fiercely]," said Mark Davies Jones, analyst at Salomon Smith Barney in London.

"Until they do that Imake

won breathing space. Analysts say they were pleased that by publishing the programme, Mr von Pierer himself openly identified the commany's trouble spots. Together these account for

a third of overall sales: its mobile phones unit, which has suffered from quality control problems as well as competition from companies such as Nokia and Eriesson; its transportation systems division: and its semi-conductors unit, which is forecast to lose DM1bn (\$566m) this year and where Siemens is bit by undercutting from mobile phones.

Asian competitors engaged in what Mr von Pierer calls a

"smeidal pricing strategy". As for acquisitions or disposals, no names were mentioned as possible candidates. Mr von Pierer did however indicate where they muht lie: a listing on the New York stock exchange is intended to prepare the ground for share-based acquisitions or mergers. The Siemens chairman said prices for North American firms were currently too high to be conducted on a traditional cash busis.

Analysts were also pleased by initiatives to improve the company's use of capital. At present, investors take a dim view of the high level of money tied up in working capital fied up in areas which do not generate added value, such as real estate holdings, would be released The company hopes this will also reduce operating costs.

imaneial markets' nositive reaction, however, was what the programme might mean for the future.

Though sketchy, suggested a seismic shift in thinking at the industrial urgency - which analysis suspect has a lot to do with Heinz-Joacham Neuhurger, Siemens' new financial chief

who took office this year. With this revolutionary programme, Siemens has pointed to a radical transfer mation of the company. If Mr von Pierer does not deliver, however, he will have more serious thangs to worry about than reporters'

Internet IPOs may lift a disappointing 1998

The performance of initial public offerings on the New York stock market will this week provide some indication of institutional investor entiment emid turbulance in global stock markets... A test of sentiment will

companies, a sector that has the most successful IPO in 248 per cent above its offer Unisource, the joint venture price by the close on its first in recent weeks that day and Friday, a sure sign of pulp and fine paper was offset weak prices for corru-

The most eagerly awaited internet-related deal set to GEAB last year claimed 15 | launch this week is GeoCi-SKr2.8bn (\$225m). David for a deal that could raise ing concern about the level its level at the start of the Ross, chief executive of Car\$22m. The company runs one of investor demand. phone Warehouse, said the of the most popular web UK group could exploit sites in the world offering community chat pages, and some believe the deal could penetration has reached 40 be one of the most successful

who argues that the company's popularity could prove a decisive draw to investors.

Other internet-related companies on the week's roster include 24/7 Media, an come from a series of offer-internet advertising and ings from internet-related marketing company that could raise \$42m, and Cityrecently been a star of the Search, an online entertain- the Russell 2,000 index of IPO market. Three weeks ment guide that could raise

history, rising in value by the heels of several sharp leading indices in terms of pull-backs in the US market percentage gains on Thurs- prices stabilised and output Industrial Average. Many steadied, at least for the IPOs, including Del Monte moment. On Friday the Rusper cent of Sweden's market ties, which has Goldman Foods and others, were last sell 2,000 closed at 415.80. for mobile sales, worth Sachs as its lead underwriter week postponed due to grow more than 20 points below

> Furthermore, by the yardstick of after-market perfor- for a widespread recovery of mance, 1998 is shaping up to IPO performance, for select be a considerable disappoint new offerings especially ment. According to Securi-related to the internet, the "GeoCities has a tremen- IPOs launched this year up yet.

dous amount of recognition to the middle of last week among consumers," said have managed to rise in Ryan Jacob, portfolio man- value, on average, just 22 ager of The Internet Fund, per cent since their offer date. That compares to average appreciations for IPOs of 19.7 per cent last year and

14.3 per cent for 1996. However, there were slight but growing signs of encouragement from investors late

As the markets stabilised, smaller company shares and | chief executive, hinted that The issues will come on Nasdaq composite led the included Tuesday's 299-point that the market's recent bout of nervousness has

So although it is too late

Paper demand lifts Metsä-Serla

By Tim Burt in Stockholm

Metsa-Seria, Finland's third largest forestry group. reported a sharp increase in first-half profits following rising demand for paper and packaging products and heavily reduced loan losses.

Pre-tax profits were FM1.08bn (\$200m), up from FM716m, as sales rose from FM8.76bn to FM10.9bn in the first six months of the year.

However, Jorma Vaajoki. achieve the same profit affected by plant shutdowns. gated packaging.

"The trend in the prices and demand for these products will have a crucial impact on our samings in although the company the latter part of the year."

said Mr Vaajoki. He attributed the interim the second quarter. profits growth to Metsä-Serprices by cutting production

in fine paper and pulp. "Both delivery volumes products were at a clearly FM4.30.

higher level than they were in the corresponding period a year ago," be added.

That beloed uperating profits almost double from lower exchange losses on for eign-currency loans - down from FM142m to FM18m.

Of the group's main divisions, profits in the paper arm rose from FM61m to FM568m after prices and volumes in magazine and fine paper jumped sharply.

from FM326m to FM425m, growth in the second half as helped by strong European demand for boxboard, which

Rising prices pushed proffrom FM171m to FM374m worned that the market had turned down again during

Volatile demand and pricla's strategy of defending ing hit the tissue division. FM80m to FM68m.

First-half earnings per ties Data Company, the 321 party may not be over and sole prices for all main share rose from FM1.32 to

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Higher

losses at

Saab in

first half

Audi well on course for record results

nies when it reported firstincreased by 64 per cent to

The robust growth reflects making with new models into the world luxury car market. It came despite a drop in deliveries in both Japan and in Germany, its biggest national market.

Franz Josef Paefgen, chairman, said Audi was expected to post record sales and profits this year after the strong first half, with revenues predicted to top DM25bn. For all 1997 it reported record pretax profits of DM1.11bn on of its new A6 model range

Audi reported strongest Audi, the executive car but the economic crisis in position as one of Europe's first six months of this year, fastest-growing car compa- car deliveries in Japan fell 15.9 per cent to 4,978. Car half 1998 pre-tax profits deliveries in the US increased 19.9 per cent to 20.410 cars.

Total turnover in the firstthe inroads the company is half was DM13.4bn, 27 per cent higher than in the same period last year. In the first half, Audi delivered 803,077 cars to cus-

tomers, a rise of 10 per cent. Deliveries to German customers fell during the period but this decline was off-set by big increases in other European countries, such as France and Spain. Audi said the big increase in sales was due mainly to the popularity

As part of the VW group growth in western Europe Audi is a beneficiary of the innovative "platform stratsubsidiary of Germany's Asia triggered a sharp fall in egy" pursued by VW chair Volkswagen, underlined its car sales in Japan. In the man Ferdinand Piech, which aims to cut costs by building different models on similar car bases.

However. Audi has also expanded its model range. and late last month VW completed the acquisition of Lamborghini, the Italian sports car company, which is to be brought under the con-

Germany's leading car companies, including BMW, Mercedes-Benz, Porsche, as well as the VW group, are all growing strongly at present, boosted by competitive new products but also by buoyant foreign demand and the relative weakness of the D-Mark against the US

French airline to be sold

A fight for control of one of France's biggest airlines is another air carrier". in prospect following the disclosure that Consortium de ways, Swissair, a commer-Réalisation, the state-backed cial ally of AOM, and others vehicle set up to sell assets are thought likely to show removed from Crédit Lyon- an interest in acquiring part nais's balance sheet, is pre- or all of the French carrier. paring to sell AOM.

an adviser, Clinvest, to through Air Liberté. "explore conditions for an eventual sale of the capital in 1992 through the merger

Air France, British Air-BA is already an important CDR said it had appointed force in the French market AOM, which was formed

ensuring the company's Mer, has some 2,700 employdevelopment by linking it to ees and 24 aircraft. In 1997 it achieved turnover of FFr3.9bu (\$656m).

Based near Paris's Orly airport, AOM's flights include routes to several French overseas poss as well as Sydney, Cuba and Sri Lanka.

Domestically, the airline flies between Paris and the southern cities of Marseilles. Nice, Perpignan and Toulon.

EMERGING MARKETS POLITICAL WRANGLING SPELLS UNCERTAINTY

Mexican pre-election wobbles worry investors

By Hunry Tricks in Mexico City

The growing pains of democracy are proving hard to stomach in the Mexican stock market. A ballooning political battle over the \$65bn cost of Mexico's threeyear ball-out of the banking system has coincided with a downturn in US markets to drive the Mexican IPC index to its lowest since May 1997.

The fall, to 3,899.93 points through the second-quarter earnings season, which kicked off when the index was above 4,600 points.

performance, investors are peering gingerly into a colossus to its north are is distracting from the fun-period in 1997. political wrangling threatens to disrupt the run-up to presidential elections in 2000.

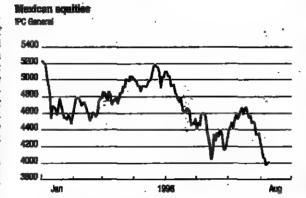
The political concerns have been kindled by striof financial reforms sent to congress by President Ernesto Zedillo in March.

The 11 bills include strengthening the autonomy of the central bank and bank retailer, reported same-store supervision to ensure a sales growth of 7 per cent smooth economic transition in 2000. All have become entangled in increasing opposition to the government's efforts to consolidate on its books the enormous cost of the 1995-1997 rescue of the banking sector by an emergency deposit insurance fund, Fobapros.

The controversy marks the most serious attempt to date by opposition parties to use their first majority in the lower house of congress to thwart Mr Zedillo and weaken his Institutional Revolutionary Party (PRI) before the elections.

The PRI has ruled Mexico for 69 years. This week, the left-wing Party of the Democratic Revolution threatens to issue names of PRI politicians it claims have somehow benefited from the Fobaproa bail-out, though so far a 6.6 per cent jump in the it has come up with no evi- first quarter. dence to back its allegations. It plans a national plebiscite is a fall in exports, more Latin American market, the on the issue on August 30. than 85 per cent of which are fate of Mexico's bourse, for

CROSS BORDER M&A DEALS



focus on robust corporate can equity strategist at sales by Mexico's top export-Credit Suisse First Boston in ers, such as mining and steel New York. "It gives the companies, rose less than 3 future, in which Mexico's impression the government, per cent in the second quareconomy and that of the US is somehow weakened and it ter, compared with the same expected to decelerate, and damental goings-on in the

> ated by Mexico's 40 largest listed companies in the secreal terms. In July, con- nies are on US markets. sumption remained healthy. Cifra. Mexico's largest ing competition from Asia

compared with July 1997. However, investors are that earnings peaked in the to buy." second quarter, especially because strength in the second half of last year will look weak by comparison.

raising fears of higher interest rates. The consumer price index in July rose 0.96 per cent, just below the important 1 per cent level. Whether growth has

started to slow significantly in the third quarter is a mat-ter of debate among econo-brakes. twice tightening mists. Second-quarter gross domestic product, for which figures are due on August 19, is expected to have risen the US stock market, which above 4.5 per cent, following sideswipes its southern Weighing on the economy

"It's negative [for the markets] without a doubt," said growth has stumbled.

Diego Bravo of AB Asesores Moneda, a financial By his calculations, the research firm in Mexico, said strength in the domestic con- the impact of the General sumer market in Mexico Motors strike on Mexican increased cash-flow gener- autoparts manufacturers, though short-lived, was a "warning shot" of how ond quarter by 15 per cent in dependent Mexican compa-

"Even though second quarter results weren't the seeing the glass as half bad, those that are comin empty rather than half full. are going to be worse," M There is a widespread belief Bravo said. "No one is kee

The economy's prospect are further clouded by th cumulative impact of thre make this year's numbers budget cuts that have loppe some \$4hn off public speninflation has also crept up, ing, much of it programme for the second half of th year. The cuts were sparke by a slump in oil prices which is also expected to constrain next year's budget In addition, Banco d Mexico, the central bank

UNUSS BUILD	EN MICA DEAL			
BIDDERVINVESTOR	TARGET	SECTOR	VALUE	COMMENT
Telefónica (Spain)	Telesp (Brazil)	Telecoms	\$5bn	Doubts emerge
Houston (US)/Electricity of Caracas (Vancous)	Electrocaribe/Electrocosta (Colombia)	Power	\$454m	Sealed bid win
Essette (Sweden) .	Lettz (Germany)	Office products	\$328m	New Euro No 1
NEC(Jepan)/Bull(France)	Packerd Bell (US)	Electronice	\$250m	NEC control
Citibank (US)	Confia (Mexico)	Benking	\$195m	Finally complete
Koone (US)	icon Systems (UK)	Computer serves	\$50m	Europe debut
Greencore (keland)	Paramount Foods (UK)	Food	\$47m	Recommended
Filtranic (UK)	LSS (US)	Samiconductors	\$43m	Technology buy
Alice (UB)/CEH (Greece)	Post Bank (Buigaris)	Benting	\$38m	Privitieation stake
Willis Corroon (LIK/US)	BMZ (Mexico)	Insurance arves	n/a	50% stake

PROJECT FINANCE APPETITE EVAPORATES FOR EMERGING MARKET RISK

Asia crisis hits dream sector

By Simon Davies Capital Markets Editor

Project finance was a dream sector for banks looking at ways to shift away from been increasing rapidly with increasingly competitive energy deregulation.
domestic markets and In the UK, PFI activity has domestic markets and improve margins.

Saab, the Swedish motor vehicle manufacturer, has With the World Sank preannounced sharply higher first-half losses following £1,262bn of infrastructure active. production stoppages and increased costs associated investment in Asia alone in the decade to 2004 – and this with the US launch of its is its low-growth scenario llagship 9-5 model. there was no questioning the The company, managed demand for capital.

and 50-per cent owned by General Motors of the US, nomic growth in Asia-Pacific said pre-tax losses deepened and parts of Latin America, from SKr600m to SKr978m concern seemed to be reced-(\$122m) in the first half of ing about risks of lending to 996, even though sales rose these countries. from SErlim to SErla. Sbn. However, the Asian crisis Saab officials blamed the has burst this bubble, presenting project financiers with the unpleasant combiincreased losses - considera-

bly worse than analysts expectations - on the affect nation of collapsing currencies and economic growth of Denmark's general strike in May, when component rates throughout most of the shortages forced the compeny to suspend production. Robert Hendry, chief exec-This means revenues from infrastructure projects fall utive, said the industrial with consumer demand, and action was the main factor the value of these revenues ehind operating losses that in dollar terms collapses.

almost doubled from SEr364m to SEr615m "We plan to make up the volume lost due to the Danish work stoppege and will launch our next new model the 9-5 Wagon - in the autumn." he said.

Mr Hendry also predicted that Saab would move into profit in the fourth quarter, although full-year results would still be negative.

The company last reported quarterly profit in 1995. Since 1989, when GM bought its stake from Investor, the main investment vehicle of the Wallenberg business empire, Saab has accumulated losses of SEr12bn.

In the first half of this year, unit sales increased sharply, following the launch of its new 9-5 saloon. Supply shortages and distribution problems in the US, where dealerships ran short of models and could not meet customer orders. undermined strong demand for the car, developed at a cost of SKr5.5bn. Saab confirmed it had

resolved supply problems in the US. Of the estimated 10,000 cars produced by Saab in July, 50 per cent were sent to North America. Overall, retail sales rose 14

per cent to 58.077 cars in the first half of 1997 but Saab is not expected to break even hefore it reaches sales levels of 127,000 cars a year. Production this year is expected In its international mar-

kets, Saab saw strongest sales growth in France and Spain, of 56 per cent and 72 per cent respectively. Mr Hendry claimed Saab's growth was on target. In

addition to the station wagon launch later this year, it will unveil a sports car in the spring.

currency, presenting bankers with a domino effect. Of course, it is not all bad news. Activity in the US market, for example, has

picked up, and the Middle East and parts of Latin dicting demand for some America remain fairly However, the Asian slow-

down has also hit commodity prices - a big disincentive for oil, power or chemical plants - and even India, one of the big poten-tial markets, has been dam-Also, given levels of ecoaged by US embargoes following its nuclear testing. This has all followed

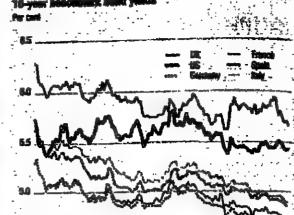
period when banks geared up resources to develop a supposedly lucrative new market, so cuts are being pushed through rapidly.

As Mr Files said: "The level of activity for Asian projects in 1999 is going to be 10 or 20 per cent of what it was a few years ago, and you could argue the business was over-banked then."

Considerable capacity is coming out of the market. Partially, this is the response of troubled Asian banks reining in their balance sheets. In addition. there is the impact of a numthe Union Bank of Switzerland with Swiss Bank Corp. And then there are the hanks that are recognising loan could be repaid. But it that they have not been get ting a return from the busi-

ness that reflects the risks. The big issue for continuing participants, is whether the supply of capital will diminish faster than the supply of genuinely attractive projects. At the very least, banks will take a far more aggressive stance towards pricing risk.

As many of the standard syndicate members of old



banks are being forced to take more loans on their own balance sheets.

The underwriting risk for those banks that want toremain key players in this market has increased substantially over a year ago. The key to success in this market going forward is to find multiple sources of capital," said Adehayo Ogunlesi, managing director and head of global project finance at Credit Suisse First Boston.

The capital markets themselves have been viewed as the great hope for project finance, and \$4.8hn of project bonds have been issued so far this year, according to CSFB. However, bond investors' appetite for emerging market project risk has evaporated.

project, the bank loan tranche paid 200 basis points over Libor, while bond investors demanded a yield spread of more than 600 basis points, making the canital markets look an expensive luxury.

disappear, the remaining ever, can still supplement experience.

banks' own balance sheet as was demonstrated by AAA rated Project Funding Corporation I bonds, which were backed by the cashilou from a number of CSFB.

funded projects. The bank is now working on a second tranche, which would allow CSFB to raise capital for future projects, as well as refinancing existing

The international capital markets will also face a significant additional test in the final quarter.

Sincor, a Venezuelan oil project, is due to raise \$1.5bn from a bond issue, after signing up \$1.2bn from a bank syndicate. This will be an Important beliwether for the project bond market.

Rod Morrison, editor of IFR Project Finance International magazine, argues: "It has returned to a normal market. It is not all perceived to be good, as it was a year or two ago, when everyone wanted to lend." Normality, however, could

The bond markets, how- prove a painful learning

Warning hurts Canadian banks

be painful for the banking

sector in areas from Pakis-

tan and Indonesia to Russia

and parts of Latin America.

Kevin Files, head of proj-

ect finance at HSBC, argues:

Some projects are so obvi-

ously in trouble that it is not

conceivable that the whole

is too early to say whether

overall losses to the banks will be substantial."

Moody's has already

warned of the high risk of

default on four rated Indone-

sian project bonds with a

Thailand, Kores and Pakis-

tan also offer considerable

problems. Even China,

which had been the great

hope for bankers at the start

of the year, could devalue its

value of \$855m.

after a profit warning from Canadian Imperial Bank of Commerce on Friday sparked fears of a slowdown in the sector.

"There is concern that the party may be over," said one The Toronto stock exchange's banking sector index closed down almost 6 per cent, with CIBC leading

capitalisation Shares of Toronto-Domin-

C\$52.70. Observers said lower than are expected in early Sepexpected CIBC third-quarter tember.

results would probably not affect the proposed merger, each own one of the counone of two pending regulatory approval.

Mest Canadian banks are expected to report lower or flat third-quarter earnings compared with the previous period and the third quarter last year. Roy Palmer, analyst with Toronto Dominion Securities, expects only Royal Bank to report higher third-quarter earnings.

CIBC said third-quarter share price fell 16 per cent to cents per share, down C\$37.15, knocking C\$2.9bn sharply from an expected 85 (US\$1.9hn) off its market cents owing to weak capital 0.5 per cent slide in the key collective C\$7.1bn in 1997. market revenues and higher TSE 300 index on Friday. expenses linked to its acquiion Bank, which has agreed sition last year of Oppen-to merge with CIBC, also fell heimer, the US equity almost 7 per cent, to close at dealer. CIBC's results for the third quarter, ended July 31.

Canada's top five banks hit demand for loans and affect commercial banks try's largest brokerage firms and were expected to be affected by sagging capital

Shares in Royal Bank, Bank of Nova Scotia and Bank of Montreal also slipped on Friday, although they are not seen to be as which has been more aggressive in expanding its invest- banks carned C\$3.7bn.

Furthermore, analysts were concerned that sputter-

lead to a rise in loan-loss provisions during the latter part of this year. But they said most will again report record profits for 1998 given vulnerable to capital mar- the industry's strong perforkets weakness as CIBC, mance in the first half of the year, during which the five

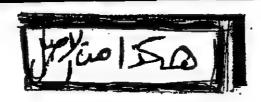
The overall decline in posted record profits for the bank shares contributed to a past four years, reaching a

Statistics Canada recently Bank shares were also hit reported that financial serby Canada's failing dollar. vice sector activity in May The weak dollar has also declined 1.7 per cent as volheightened speculation that umes of stock traded fell, but the Bank of Canada will be the agency said early indicaforced to raise its overnight, tions were that the industry interest rate, which would was recovering in June.

winde

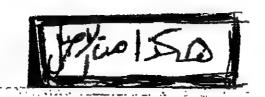
FT GUIDE TO WORLD CURRENCIES

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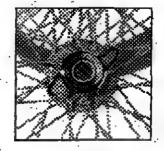


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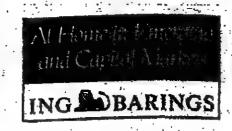
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MARKETS WEEK

August 10 - August 16

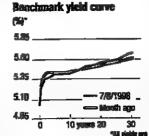


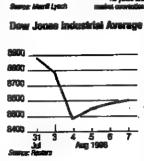
It threatens to be a week of high anxiety in US equity markets after last Tuesday's 299.43 fall in the Dow Jones Industrial Average and the volatility that followed.

On Friday, equities rallied for a third day, but the Dow and S&P 500 indices gave up most of their gains in late trading, indicating a lack of confidence in prospects for a sustained rally.

On a more bullish note, US retailers start reporting second-quarter results this week, and should show healthy profit increases. But even this could be seen as bad news by the bears, who may take it as evidence that umers have decided to spend their money on goods instead of stocks.

Treasuries have been range-bound, with the yield on the 30-year bond continually flirting with the 51/2 per cent level but failing to break through. This week could further test those yield lows, especially if equities





A decisive factor could be the degree of market confidence in the ability of Japan's new leadership to gineer economic recovery. If confidence remains low. the likelihood of further dollar appreciation against the yen could boost Treasury prices, pushing yields into

By Philip Coggan

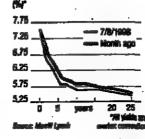
The Bank of England's monetary policy committee left rates on hold last week, and this week we should iiscover why. The quarterly inflation report will presumably suggest inflation is heading for the 2.5 per cent target, otherwise the

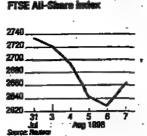
decision will seem odd. But the market will be reading the report carefully to see the committee's reaction to government spending plans, and for any tion that rates have peaked. On the same day, the minutes of the July committee meeting will be released, allowing analysis to see how many members were pushing for a rate rise.

The key statistic of the week will be average earnings figures, cited by the Bank when it sanctioned the June rate rise. The consensus forecast. according to Standard & Poor's MMS, is for the mnmal rate of increase to slip to 5.3 per cent, from 5.4

RIGHTS OFFERS

7.75





But the markets will also be keeping an eye on the British Retail Consortium survey and the producer

prices figures.

After the recent downward revisions to corporate earnings forecasts, figures from Inchcape, BSkyB, CGU and Orange will all be

FRANKFURT

Frankfurt remains nervous ifter the gyrations in share prices last week which followed the weakness of the

US market. Analysts expect the correction to continue after the strong rise in share orices in Germany this year, but they forecast the correction to be only a mild one. In spite of the falls earlier in the week, Frankfurt's blue-chip DAX index closed up 1.03 per cent at 5.585.20 at the end of Ketra electronic trading on Friday.

One uncertainty for investors in the German market is the mational election next month. Gerhard Schröder, the left-wing challenger to the chancellor, Helmut Kohl, is leading opinion polis, but investors are unclear about the new policies he could introduce, were he to win.

Unfortunately for Mr Kohl. the economy is showing few signs of stronger growth, with data last week showing unemployment still at high



levels and industrial production week. Qiagen, the biotechnology group, listed on the Neuer Markt, the exchange for small, hi-tech companies, publishes half-year results today. Henkel reports on first-half business tomorrow.

while Mannesmann and

Vebs report on Thursday.

TOKYO by Khozem Marchs

After prime minister Keizo Obuchi's disappointing policy speech on Friday, attention is now focused on the passage of the government's "bridge bank" cheme to close failed banks which will be introduced in parliament this week. The markets have given their verdict on Mr Obuchi

for the new administration may lie in the swiftness with which it legislates to clean up the banking sector. One increasingly important factor will be the opposition Democratic Party. which opposes the bridge bank proposal as currently formulated, Mr Obuchi indicated at the weekend be

was prepared to meet the opposition for talks. Meanwhile, in the real economy, markets will be watching for further signals of deflation, with the publication of the July wholesale price index on Tuesday. In recent months

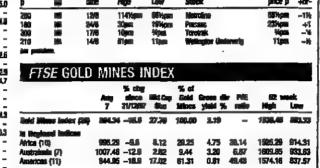
the index has been negative

and his agenda but salvation 18.3

> and a continuation of this i likely, On Wednesday, ... revised industrial production and capacity utilisation data for June are released, while Thursday sees the June current account figure. which should show the trade surplus continuing to balloon, helped by the weak

LONDON RECENT ISSUES: EQUITIES

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	Aug 7	Aug 6	Aug. 5	Aug 4	Aug 3	High	Low	High	LOW
FTSE 100	5680.4	5594.1	5832.5	5738.1	5809.7	6179.0	5068.8	8179.8	986.9
FTSE 250	5323.0	5311.0	5321.5	5444.9	5447.9	5986.6	4788.2	3000. 6	1379.4
FTSE 250 tex (T	5387.2	5358.2	5365.9	5488.6	5492.5	6030-0	4822.5	BESTLE	1378.3
FTSE 350	2735.1	2700.0	2716.1	2758.5	2797.7	2967.8	2444,7	ENL	664.5
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August 10 1998; Landon By Cilbank, N.A., (Clobal Agency and Trust), Agent Bank

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COMPANIES DIARY

Oil price fall should help BA figures

Analysts would be pleased to hear of progress on the planned link with American Airlines when British Airways today announces results for the first quarter to June, although no significant news is expected. The strength of sterling is likely to have had an effect, but the fall in the off price should work to the advantage of BA. Growth in passenger volume is likely to be respectable, partly because industrial action last year held back passenger numbers. An underlying pre-tax advance of 11 per cent to £100m (\$165m) is expected by BT Alex Brown

 The impact that the latest wave of uncertainty from Richard Ayling of British Airways: hoping for a US breakthrough Asia has had on Inchcape. one of the UK's closst trading companies, will be announces interim figures. About 40 per cent of the company's profits are gener-ated in Asia and the troubles results that the management in the region will have taken expects will be keenly anatheir toll. The company lysed. Job cuts are likely, recently announced plans to break itself up, and investors may be nervous over the timing. There may be an announcement that the Rus- healthy while the strength of sian bottling operations have sterling will yet again have been sold. The UK motors hurt the bottom line. First-division is expected to have half profits were down 17 per done well, although it may be affected by the impact of Asia. A pre-tax fall of about falling resale values of used 16 per cent to £270m is cars that has hurt Arriva and Car Group. BT. Alex Brown expects a decline of about 26 per cent to 258m

TUESDAY

 Third-quarter figures from industrial gases group BOC will probably be overshadowed by an update on its plans for a shake-up. The included a commitment to a clearer understanding of the ing pre-tax decline of about AFX Amsterdam

range of programmes to com- company formed from the 13 per cent to about 250m is Norway last year.

which would be unveiled with these results. The scale with some analysts suggesting 10 per cent of employees may have to go. The gases business is expected to be cent because of currency and

• Hunter Douglas is expected to report net profit of Fl 88.5m-Fl 90.7m (\$48.8m-\$44.4m) for the first half to June 30, compared with F1 76.3m a yearearlier, • Cables group BICC will according to analysts' forecasts. AFX, Amsterdam

CUPANIO CO

figures from Nycomed Amerfirst-half results in May an opportunity to achieve a

national and Nycomed of

There are no comparative figures but about £110m-£115m pre-tax is likely this time. Analysts will be keen to hear of the effect of the company's exposure to currencies, particularly the yen.

 Weakness in its US markets is likely to have affected interim figures from Smith & Nephew, which are expected to have fallen about 11 per cent to £70m pre-tax. Nevertheless, the shares have found support on hopes of consolidation in the indus-

WEDNESDAY

probably have suffered from the effects of competitive pri-

 CGU, the insurer formed by the merger of General Accident and Commercial Union, will have suffered from the effects of bad weather in the US, where GA was particularly strong. Ice storms in Canada will also have hit profits, while insurance in the UK will contribute to the profits decline. Pre-tax operating profits are expected to fall by almost half, to £270m.

74.20.00

3.36

THURSDAY

 Getronics, the Dutch information technology company, is likely to report net profits of Fl 104-Fl 118.4m, compared with Fl 79m in the first half of 1997, according to analysts. They put Getronics' operating result cing, the strength of sterling in a range of Fl 104m-● The first set of interim and Asian turmoil in its first FL 148.6m, up from half. Although margins at Fl 107.8m, with earnings per sham should give analysts Balfour Beatty may well share of Fl 1.16-Fl 1.32 comhave improved, an underly- pared with F10.9 in 1997.

CONTRACTS & TENDERS

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ser terminal at Manga harbour on public land.

The Land unit to be encumbered with the building title has: Cadastre signs: 44603:001:0080 Purpose:production land Area: 180 268 m² Term: 50 (fifty) years Initial amount of annual fee: 324 500 Estonian krooms

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Estonian, on working days from 10 a.m. to 4 p.m. (local time) at the presentation of the written application of the copy of order of payment for the son refundable participation fee. The participation fee of 5000 Estonian krooms is to be paid to the account No 221001138983 of AS Tallima Sadam in Hansspank, code 767. For additional information please contact Port of Tallina Authority. phone +372 6318 013, fax +372 6318 005.

All bids must be delivered in a scaled envelope in Estonian or English not later than October 1*, 1998 at 2. p.m. (local time) to Port of Tallian at the address of Tallian, 25 Sadama street, room 406, EE0100 Estonia. All bids must be accompanied by a bid security of equivalent to 162 250 Estonian knoons. Bids will be opened in the presence of Bidders' representatives who choose to attend on October 1st, 1998 at 3. p.m. The teader shall be effected in accordance with the legal acts of the Estonian Republic.

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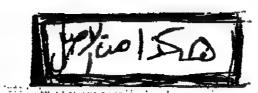
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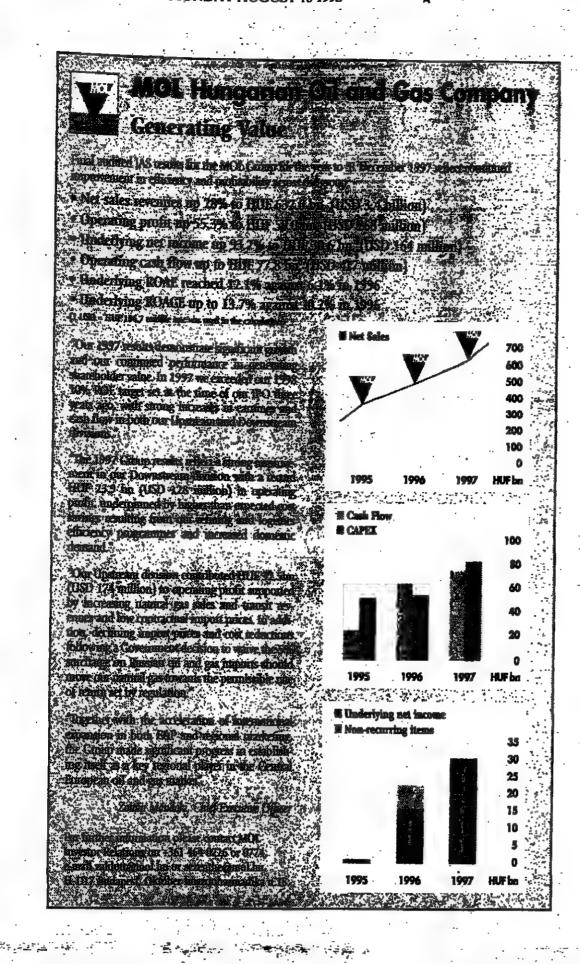
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THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

Abbey National Treasury 6% Gld Nts 1999 960 Do 6% Gtd Nts 2002 L300000.0 Do Cno-Tec 10 Lkd FRN 2009 FFr11050.0 British Steel 7p Chubu Electric Power 6%% Nts 1999 EB7.50 Conversion 9%% 2001 64,875 Crabtree 1p Kobe 874% Gtd Bd 1999

I TODAY

\$443.75 Metroline 2.1p Nomura Int Sb FRN 2004 5144.55 Quadrant Housing Fin Gtd Sec Stppd Coupon Bd 2018-2033 £247 Shelton (Martin) 3p Sterling Inds 7.5p VTech \$0.10

■ TOMORROW Bradford & Bingley Bidg Scty FRN Feb 1999 £190.62 BT Fin 84% Gtd 8d 1999 Do 8%% Gtd Bd 2009 Happalim Int Gtd FRN 2000 arthroke 8%% Bd 2003 £442.75 Mazda Motor 5.1% Bd 2000

TODAY

So a WWF project in Costa Baca is

can be used forever. Help WWF proper writing to the Membership Officer at the

World Wide Fund For Nature

Do FRN 2000 Y23079.0 Sedgemoor 1.5p Severn Trent B 1.06875p Staveley Inds 6.5p TLG 3.1p Trinity Care 3.7p Victorian Public Auth Fin.

WEDNESDAY AUGUST 12 Aberdoon New Dawn Inv Tst Babcock Int 1.11p Birmingham Midshires Bidg Scty FRN 1999 £190.62 European Colour 1.635p Henderson Goarod Inc & Grath Tst 2.25p

> Penna 1.3p Vosper Thornycroft 20 35p Woolwich Step-up Callab FR Bd 2012 £196.92

Nova Scotta FRN 2001

Brockhampton 3.2p Do A N/Vig 3.2p Century Inns 2.4p Electra Inv Tst 5,175p etrotect 1p New Inv for Trains Class Asset-Bokd FRN Feb 2011 122.36 Do Class B May 2011 223.43 Nordic Inv Bank 79456 Nts

Castings 4.17p Cropper (James) 3.6p DBS Mngmnt 3.1p Friendly Hotels 3.7p GB Railways 5p Homby 5p Inperial Tobacco 7.60 Kiln Capital 12.4p Macdonald Hotels 3.35p Marsh & McLennan 80.40 Pilkington 3.25p **RPC 3.15p** Ramsden's (Harry) 1p Savoy Asset Magmat 2p

FRIDAY AUGUST 14

Scapa 5.59p 10!4% 1st Mtg Db 2016 Somic 1.925p Tanjong M\$0.22 Umeco 4.9p Vendean Un Var Rate Ln Nts 2003 1.799067p Workspace 12p

M SATURDAY **AUGUST 15** Abbott Labs \$0.15 Anglo American Inv Tst 6% Gross Cm Pt R0.06 Hrbrs 31-95 Glid Pf 1 225p Jarvis Hotels 3p

E SUNDAY AUGUST 16 Treasury 21:46 IL 2013 \$2.2421

UK COMPANIES

COMPANY MEETINGS: Aberdeen New Dewn Im Tst, 1, Bow Churchvard. Cheapside, E.C., 12.00 MS International, Doncaster Moat House, Warmsworth, Doncaster, 12.00 BOARD MEETINGS: Final:

Stoves Interims Sestohi & Sestohi

TOMORROW COMPANY MEETINGS: Anfte, 353, Buckingham Ave, Slough, Berks., 11.30 Safeland, 144, Great North Way, Hendon, N.W., 11.00 BOARD MEETINGS:

Hall Eng Headlan Nycomed Amershan Quantica Sanderson Bramali

Sedgwick Smith & Nephew

1998 277.50

■ WEDNESDAY AUGUST 12 COMPANY MEETINGS: Bakery Services, Barnsgate Manor Vineyard, Herons Ghylt, Uckfield, East Susse 3.00

Mountview Estates Kenilworth Hotel, Great Russell Street, W.C., 11.30

rinas: VDC Westmingter Health Care Interims: CGU Morgan Sindall

BOARD MEETINGS:

THURSDAY AUGUST 18 COMPANY MEETING: AIT, 309, Reading Rd, 10.30 BOARD MEETINGS:

FRIDAY AUGUST 14 Crown Eyegta Slug & Lettuce

SATURDAY AUGUST 15 BOARD MEETINGS: Final:

Company meetings are annual general meetings unless otherwise stated. Please note: Reports and accounts are not normally meeting to approve the preliminary results. This list is not necessarily comprehensive since companies are no longer

CONFERENCES AND COURSES

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SEPTEMBER 2 IT and Customer Lovalty

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A breakfast seminar considering how technology can be used to attract and retain customer loyalty. Speakers include: Phil Hendey, Orange Personal Communications Services, David Robottom, The Direct Marketing Association, Dr William Lovegrove, Ministry of Sound For details contact: Sian Fancourt, Financial Times Con Tel: 0171 073 3363

Pag: 0171 873 3067 LONDON

SEPTEMBER 3 & 4 FT World Aerospace and Air Transport Conference

ITAINSPOT CONTENENCE
Distinguished speakers include NellKinnock, Member of the European
Commission; Adam Brown, Airbus
Industriet, Roberl Ayding, British Alevayu
ple; Pierre Jesmiot, MTA; John Wesson
CBE, British Aerospace ple; Gordon
Bethune, Continental Airlines Inc and Jim Swigart, Virgin Express.

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Johannesburg Tel: +27 11 907 0948 Pax: +27 11 807 0919 Email goldcity@isticles.com For bookings and more information contact: Business in Africa Conferences Landon Tel: +44 171 495 7969 Pax: +44 171 495 7966

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SEPTEMBER 21 - 23 IATA's 'Financial Forum 98' Sourcing Winning Business mainem 96 - Tim Wireless

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Year 2000 Compilance
Management Issues: the implications
for IT; problems and solutions of
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who are ahead of the game. Y2K
compilance is a business as well as an
Cliston Learn how to answer your OCTOBER 6 - 7

IT issue, Learn how to ensure your business functions normally through the tum of the century. UNICOM ± 01895 256484 (: 01895 813085

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Communications Conference
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again attracted as international andience
of senior executives from the mobile
industry. Speakers include: Mr Haus
Snook, Orange pile; Dr Jung-Uck See,
SK Telecom.
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Email: sans fancouri@ft.com

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The Competition Audit
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will address key issues facing the utility
industry. Speakers include: Phil Nolau,
Transec, Keith Orchison, Electricity
Supply Association of Australia: Lohn Iransec, kern Orchison, Electricity Supply Association of Australia; John Easton, Edison; Chris Mellor, Anglian Water: John Roberts, Electricity Association, Mike Bemis, London Electricity Tel: +44 181 652 3818

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Bank mettle tested

By Simon Keper

20

The yen, Hong Kong dollar been long rather than steep, and Canadian dollar are and David Abramson, at the being kicked about. Do their Bank Credit Analyst Curcentral banks care enough to rency Service in Montreal, save them?

The yen starts this week only 4 per cent undervalued. barely YI above its eightyear low of Y146.75 against Authority will also have its the US dollar. The market is mettle tested. Last week beginning to feel that no investors bet China would stimulus Tokyo can give will soon devalue the yuan and lift the Japanese economy the Hong Kong dollar, and soon. Furthermore, Japan they assaulted Hong Kong seems to have become less shares and currency forkeen on intervening for its wards. Various Hong Kong currency. With very few yen officials swore they would bulls left, traders will try to never desert the currency push the yen below Y146.75 peg with the US dollar.
against the dollar, and see if However, central bankers

the Bank of Japan responds.

It could take the Bank of devalue until the day they Friday, the Canadians intervened in the market at all levels to buy their currency. Which has got into the habit

Sar less competitive by the slide in the yen and other Asian currencies. No earth-shattering ecoof hitting a new post-1858 nomic data are due out this low aimost every day. The Bank of Canada is now the scan the Bank of England's main buyer in the market, so quarterly Inflation Report on traders will simply have to Wednesday to see if UK base

more than they can sell. The Canadian dollar's slide has says the currency is still

The Hong Kong Monetary

Canada as its model of bel- do. And the HK dollar and ligerence. Last Thursday and the yuan have been rendered

week, although traders will calculate whether it will buy rates have peaked.

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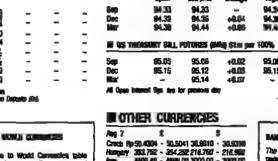
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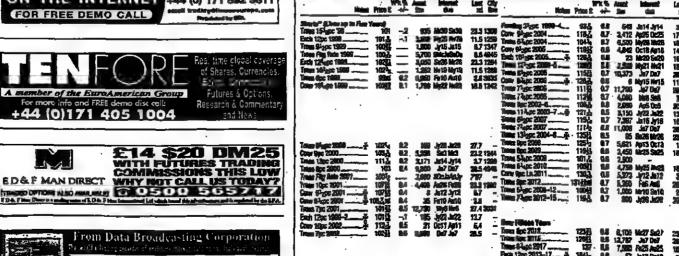
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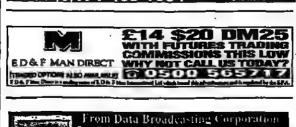
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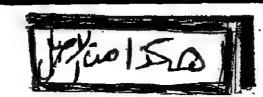
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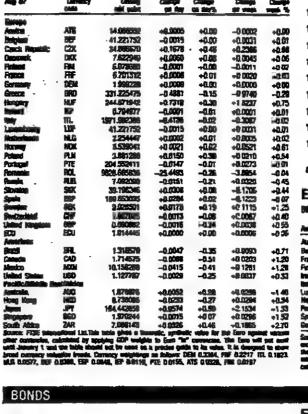
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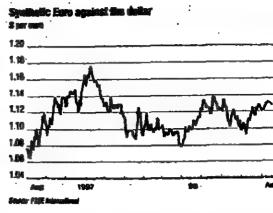
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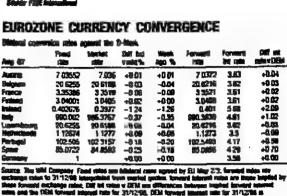
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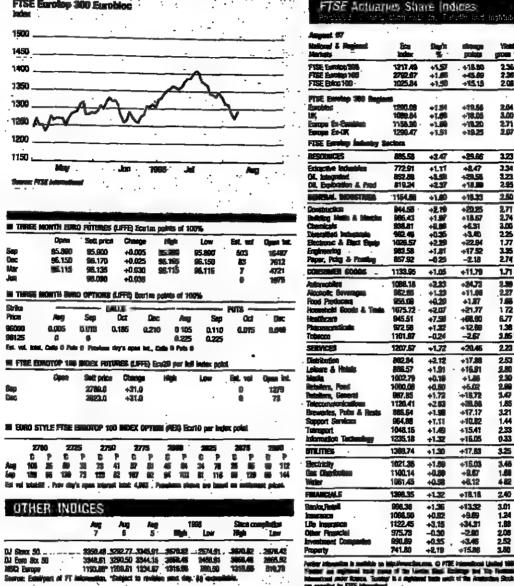
nent's record-breaking run. Those traders who may August, while many investors were on holiday, have been disappointed. Despite the widespread belief that European markets are solidly based - with inflation subdued, interest rates and

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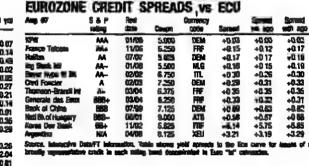
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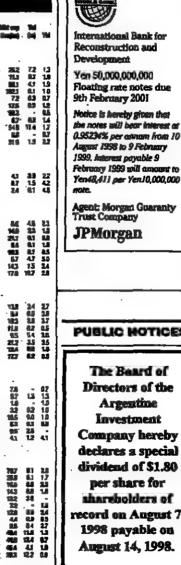
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The "Shell" Transport and Trading Company, Public Limited Company

Notice to Holders of Share Warrants to Bearer

Holders of the undermentioned Share Warrants to Bearer in the Company are reminded that, after surrender of coupon No 200 for payment of the final dividend for 1997, the coupons on such

The Share Warrants in question are:

Share Warrants of 4 shares each, numbered 1-134,750 Share Warrants of 20 shares each, numbered 1-524,750 Share Warrants of 80 shares each, numbered 1-347,250 Share Warrants of 1000 shares each, numbered 1-14,700

to the above mentioned Share Warrants should now be surrendered to be exchanged for new coupon sheets. Particulars of the talons should be entered on listing forms,

copies of which can be obtained from Lloyds Bank Registrars, Antholin House, 71, Queen Street, London EC4N 1SL, with whom the completed forms, accompanied by the talons, should be

The listing forms must be completed and signed by the Depositary, and subject to the listing forms and talons being in order, the new coupon sheets will be issued within a 28 day period.

Should any talons and listing forms be received by post, the new coupon sheets will be dispatched by unregistered post to the Depositary concerned at his own risk. Neither Lloyds Bank nor the Company will accept responsibility for any loss in the post.

No talon will be accepted unless accompanied by a listing form duly completed and signed by the Depositary.

NOTE: Registered Shareholders with share certificates may ignore this notice as dividends are paid to them direct.

Shell Centre. London SE1 7NA 10th August, 1998 By Order of the Board Miss J.E. Munsiff Secretary

MERCURY SELECTED TRUST (SICAV) (the "Company")

Registered offices 6D come de Trèves , Senningarberg,
R.C. Laisembourg R.6317 NOTICE TO BEARER SHAREHOLDERS reholders are informed that a number of changes will be made to

Bester Shareholders are informed that a number of changes will be made to the Company with effect from 1st September 1998. The mans change will be the creation of two additional classes of registered shares, Class B and Class E Shares, in each Fund of the Company. Existing shares will be classified as "Class A Shares" and accordingly, Shareholders should deliver their certificates for overstamping to one of the Paying Agents bound deliver by 1st December 1998.

Copies of the letter dated 10th August 1998 sens to registered Shareholders detailing all the changes are available from the registered office and from all Paying Agents. A revised Prospectus will be available on request from the registered office of the Company and from all Paying Agents from 1st September 1998.

Paying Agents:

Ranque Intervisionale a Wartharg Dillon Read Listembourg S.A. 69 route of Each Swiss Bank House, 1 High Tanber Street, Lordon ECAV S.B. Ast: Corpurate Action - Paying Agency

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Warburg Dillon Read (a division of UBS AG) Swiss Bank House, 1 High Tunber Street, London ECAV 358 Agt: Corpornir Action - P

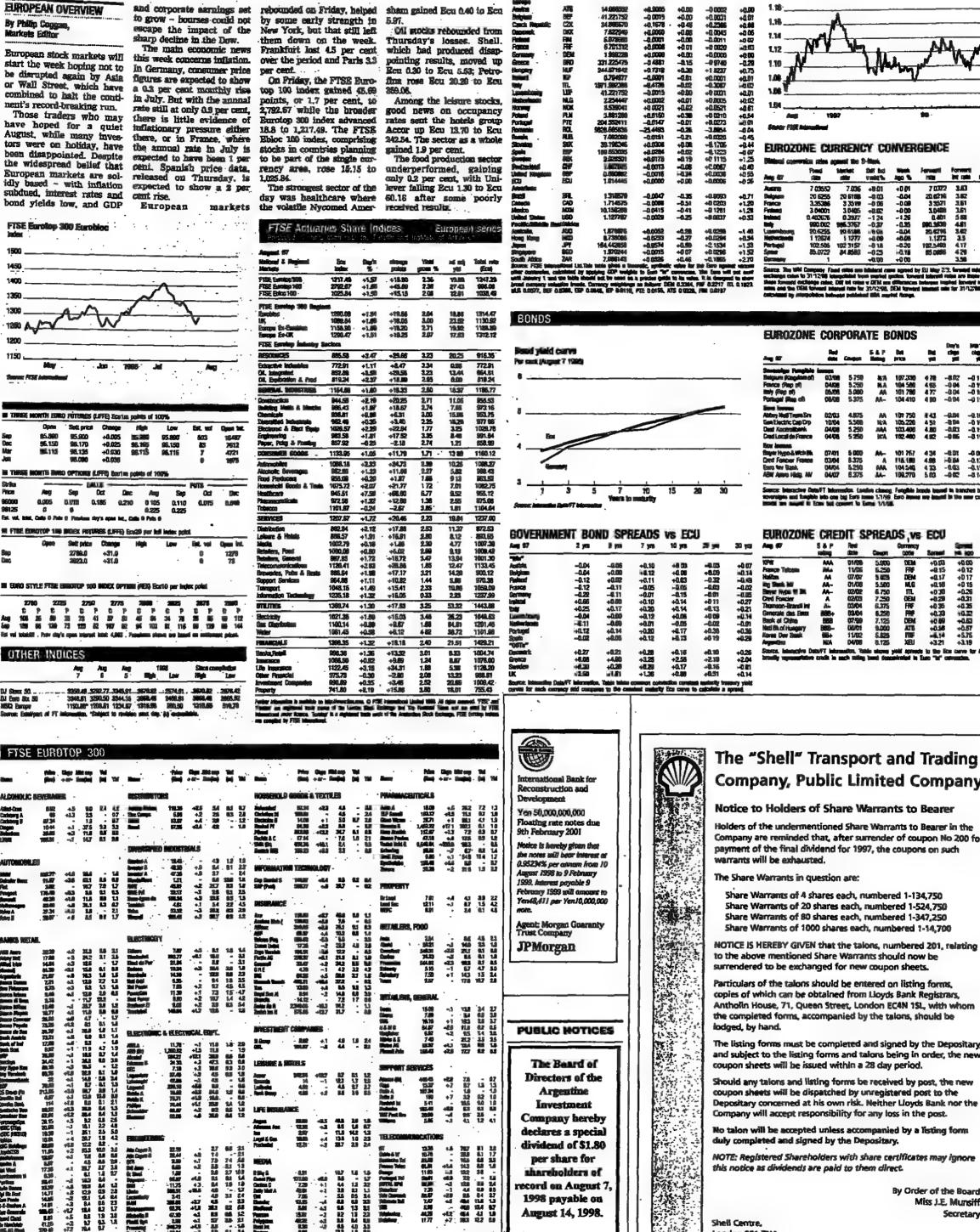
NOTICE TO THE HOLDERS OF **Custodial Receipts Regarding** US\$ 23,000,000

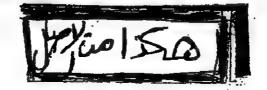
Alpargatas S.A.I.C. 9.00% Convertible Bonds due 1998

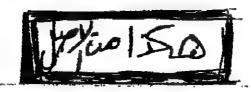
NOTICE IS HEREBY GIVEN that pursuant to Section 5.08 of the Custody Agreement, dated August 31, 1992, between The Bank of New York Trust Company (Cryman) Limited, as Custodian, and Merrill Lynch International Limited, as Depositor, the Custody Agreement will terminate on August 17, 1998. Pursuant to the terms of the Custody Agreement, all amounts and Securities, if any, to which the Owners are entitled thereunder shall be distributed in them. to them.

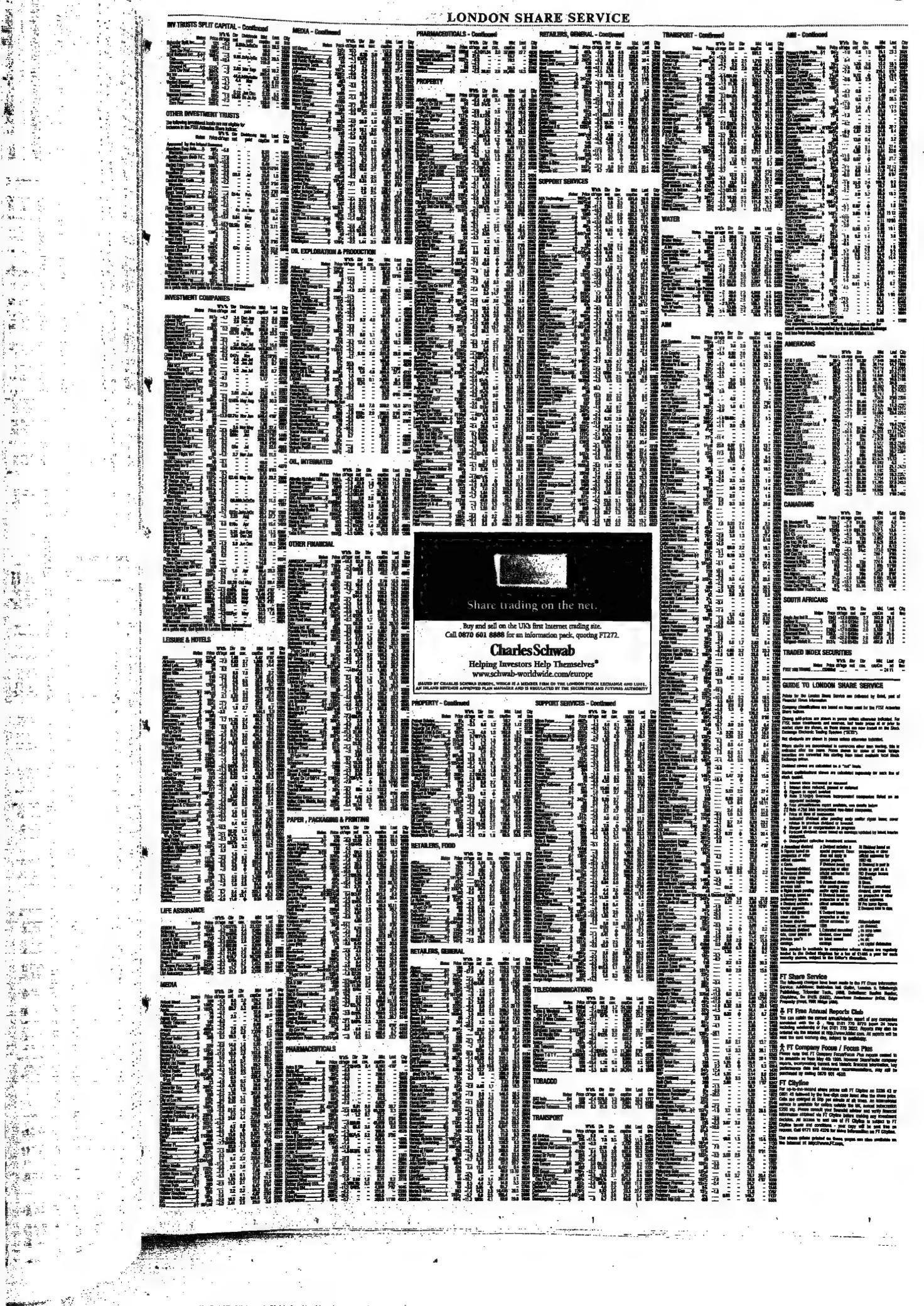
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August 10, 1998

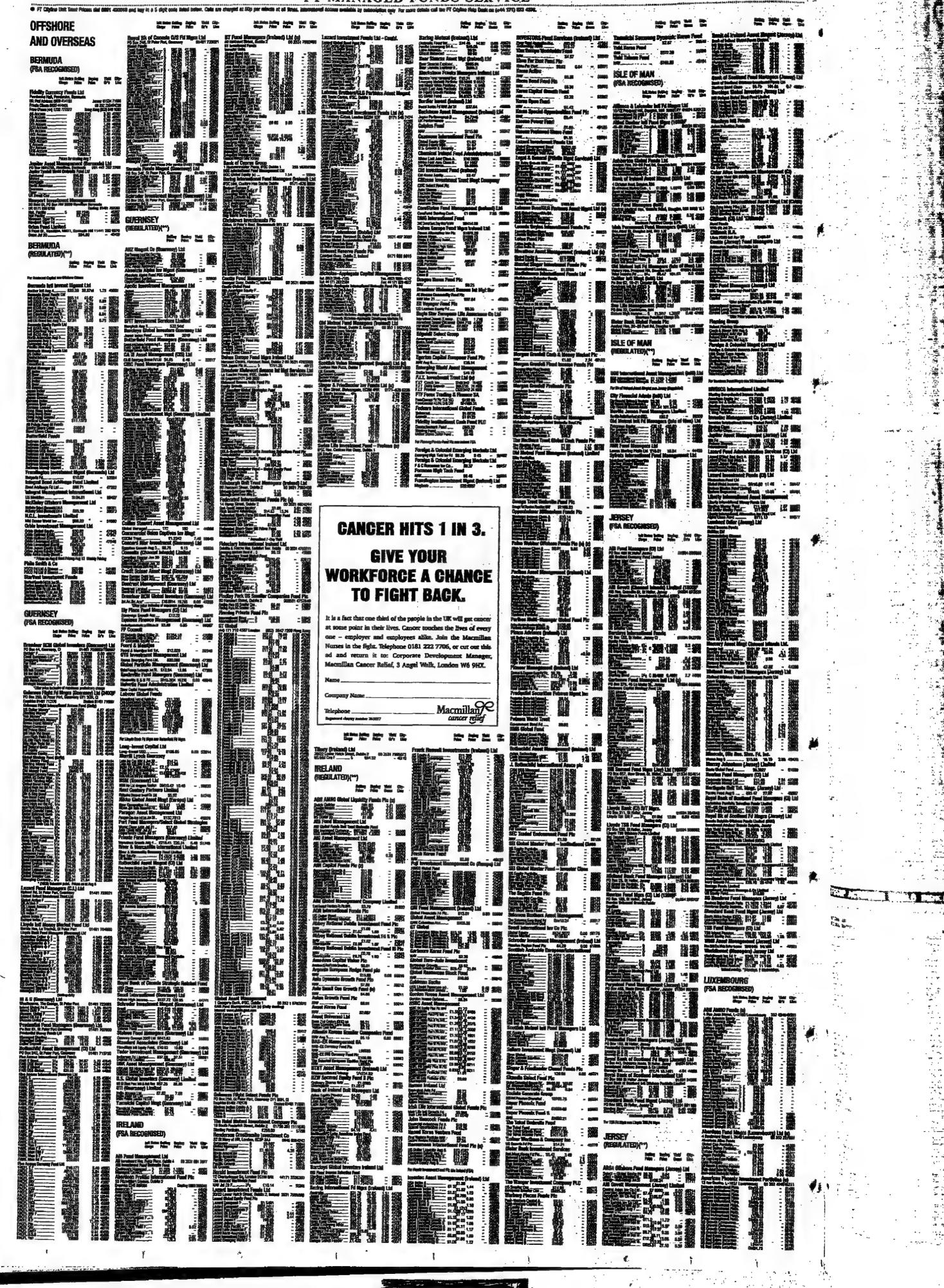


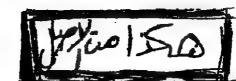


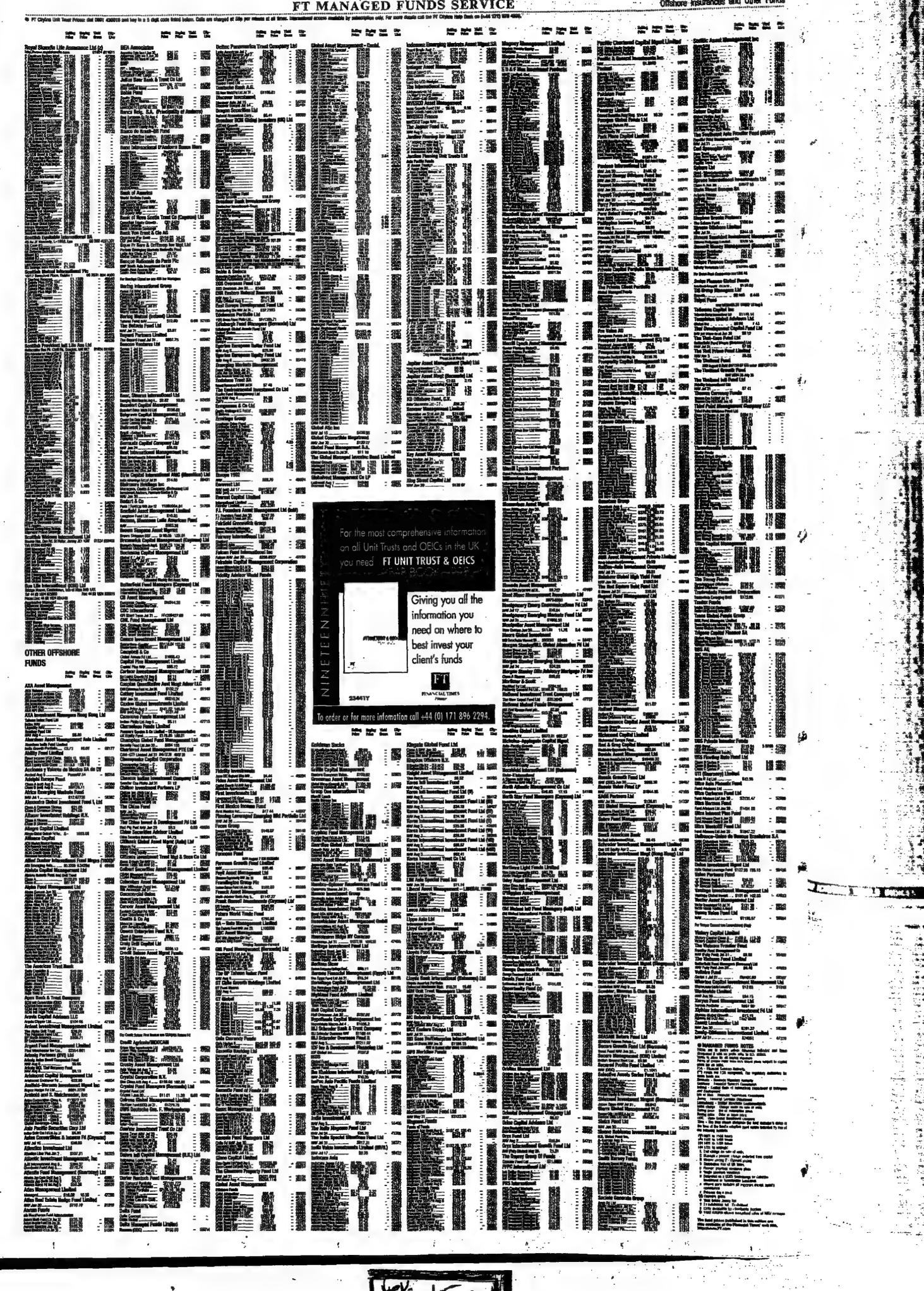


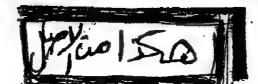


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Goldman decides

Goldman Sachs partners are expected to vote today at a monthly partners' meeting on whether to sell between 10 and 15 per cent of the US investment banking partnership in an initial public offering. With partners from around the world participating through video-conferencing, the vote will formalise a decision made in June to go ahead with taking the 130-year old partnership public. The proposals being put to partners contain details of the how the proceeds would be divided between current partners and employees,

Kohl campaigns

Germany's Chancellor Helmut Kohl holds talks with political allies after returning from his summer holiday on Friday as preparations begin for the country's general election on September 27. Mr Kohl interrupted his break for three seaside election trails in attempt to boost support; a rolling programme unveiling his Christian Democratic/Christian Social Union's election platform is already underway. With Mr Kohl back in Bonn, the cabinet gathers tornorrow while leaders of the opposition Social Democrats meet in Bonn today.

Breakaway vote

Residents of Nevis In the eastern Caribbean vote whether to leave the St. Kitts-Nevis federation and become the world's smallest independent nation, with 10,000 people. Nevisians have long complained that their 37-square-mile island, an up-market tourist destination and haven for



offshore banks, is neglected by the government in St Kitts. Secession requires support by two thirds of the

Tennis

Cincinnati: Great American Insurance ATP Championship (to August 16). San Marino: San Marino International (to August 16). Los Angeles: Acura Classic women's tournament (to August 16).

Holidays

Singapore (Sirnex open), South Africa.

TUESDAY 11

Arafat in Cape Town

Palestinian president Yasser Arafat begins a visit to South Africa. He will address parliament on Wednesday.



Holidays

Thailand, Zimbabwe

THURSDAY 13

Pooh for sale

Cricket

NatWest Trophy semi-finals. Tourist match, Canterbury or Old Trafford: Kent or Lancashire v Sri Lanka (one day). Second women's Test, Harrogate: England v Australia (to August 14).

Holidays

Jordan, Zimbabwe.

WEDNESDAY 12

UK inflation outlook

The Bank of England's official outlook for inflation is published in its quarterly Inflation Report. The report includes the monetary policy committee's forecast of the path of underlying inflation over the next two years. Since the committee left interest rates unchanged at its meeting last week, most analysts conclude that the report's forecast will see inflation at the government's target rate of 2.5 per cent in two years' time. But the latest set of UK labour market statistics, to be published at the same time, may upset the committee's forecast before the print is dry.

Statehood decision

Puerto Rico's legislature will hold a special session to debate whether the island should hold a non-binding

plebiscite on its future relationship with the US. The piebiscite would ask voters whether the island should become a US state, break away as an independent nation or remain a US commonwealth. As a US commonwealth, the 3.8m Puerto Ricans are US citizens, but do not pay federal taxes, cannot vote in presidential elections and have no

voting representatives in Congress.

CDU/CSU platform

German chancellor Helmut Kohl launches in Bonn the economic and social policy section of his Christian Democratic Union's election platform. The programme will be presented in conjunction with the Christian Social Union, the CDU's Bavarian sister party The launch follows similar presentations in the previous two weeks on law and order policy and. plans for east Germany.

Former Turkish prime minister Necmettin Erbalcan is due to testify to

Premier on trial

an Ankara court hearing charges that he incited hatred in a speech. Soccer Champions' League, 2nd qualifying round, 1st leg: Man Utd v Lodz (Pol) or Kapaz (Aze). Cettic or Patrick's Athletic

v Croatia Zagreb (Cro). Dynamo Kiev v

Sparta Prague (Cze), Kosice (Svk) or

Members of the Garrick Club In London vote on the sale of rights to A.A. Milne's Winnie the Pooh stories to Disney for £200m. The club. one of four beneficiaries of any sale, is deeply split over whether the proceeds should be divided among members, who stand to gain around £40,000 each, or be spent partly on the club itself with the remainder going to charity.

Cendant's climb back

Cendant Corporation of the US will. today attempt to bring a close to the accounting scandal which has harmed it for the last four months, by announcing restated accounts for 1997, 1996 and 1995 following an extensive forensic audit. Cendant, formed by last year's merger of HFS, the hotel and real estate franchiser, with CUC, a direct marketer, has seen its share price more than halved since it announced in April that it had found serious accounting irregularities at the former CUC. Walter Forbes, CUC's former chief executive, was forced to resign as chairman of Cendant last month. The company needs to convince regulators it has dealt with

the accounting problems before it will be able to complete its acquisition of American Bankers Insurance of Miami, announced earlier this year.

Castro celebrates

President Fidel Castro of Cuba celebrates his 72nd birthday after a tour of the Caribbean region during which the veteran communist leader won encouragement from several heads of state in his crusade to end the US economic embargo on his country.

Soccer

Cup Winners' Cup, 2nd qualifying round, 1st leg: Cork City v CSKA Kiev (Ukraine), Bangor City v Haka (Finland), Lantona (Estonia) v Hearts, Glentoran v Maccabi Haifa (Israel).

Seattle, Washington: US PGA Championship (to August 16).

Helidays Central African Republic, Tunisla.

FRIDAY 14

Cubas takes over Raul Cubas takes office as president of

Cricket

Triangular fournament, Trent Bridge: South Africa v Sri Lanka, Britannic Assurance Championship (seven matches; to August 17). NatWest U19 International, Worcester: England U19 v Pakistan U19 (to August 17).

Bangladesh, Pakistan, Morocco.

SATURDAY 15

Japan remembers

Some 7.000 relatives of people who died in the second world war will attend a memorial service in Tokyo to mark the 53rd anniversary of Japan's surrender in the conflict. Emperor Akihito will give a speech. Prime minister Keizo Obuchi and several members of his cabinet will also attend. Mr Obuchi wili not-visit Tokyo's Yasukuni shrine, a symbol of Japan's wartime militarism, though several members of his cabinet have indicated that they will.

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Act of faith

The first official group of Iranian pligrims in more than 18 years sets out for holy Shi'lte Moslem shrines in Iraq-Shi'ftes regard the shrines in Karbala and Najaf in southern Iraq as second only to Islam's holiest sites, Macca and Medina in Saudi Arabia. Iranians have been barred from the holy sites since the eight year Iran-Iraq war.

Rugby Union South Africa face New Zealand in the Tri-Nations competition at Durban.

Holidays

Bangladesh, India, South Korea, Benin, Burkina Faso, Cameroon, Central African Republic, Cyprus, Gambia, Ivory Coast, Lebanon, Malta, Senegal, Togo, Austria, Croatia, France, Germany, Greece, Italy, Malta, Spain

SUNDAY 16

Scots stage festival

The annual Edinburgh International Festival of theatre and the arts opens and runs until September 5; the Edinburgh International Film Festival runs until August 30. A short animated



film "Wide Prairle", based on a song written and recorded by the late Linda McCartney, will be given its premiere.

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Section 2

LAKEL

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Compiled by Roger Beale

Monday: Canadian housing starts are thought to have remained well down on a year ago last month. The Japanese current account surplus may have narrowed a little between May and June. UK industrial input prices probably continued falling last month, helping to reduce output price inflation. Tuesday: Consumer prices are thought to have fallen in France last month, keeping inflation stable. The creation of temporary service sector jobs should have fuelled French employment in the second quarter. Wednesday: Unemployment

the UK for the third month running in July, while annual average earnings growth should have slowed in the three months to June. The Bank of England publishes its latest Inflation Report. Thursday: Initial unemployment claims are the week ending August 8.

is forecast to have risen in

thought to have picked up in US retail sales are forecast to have been flat in July. Friday: US producer prices should have been stable last month, while industrial production is thought to have dropped a little.

ECONOMIC DIARY

Cliftonville v Brondby (Den).

Day Released	Country	Sconomic Statistic	Median Forecast -	Actual	Day. Released	Country	Surfeite Services Act
Mon	France	May current account†	FFr20.0bn	FF121.1bn		US	Jul export price index -0.4% - 0.6
	UK	Jul producer price index input*	-0.1%	-0.7%		US .	Jul Import price Index
	UK	Jul producer price index input	-8.5%	-8.7%		US ·	M1 week ended Aug 3 \$4,50n \$4.5
	UK	Jul producer price index output*	-0.1%	0.0%		us .	M2 week ended Aug 3 \$4.7bn \$4.7bn
	UK	Jul producer price index output***	0.8%	1.0%		US	MS week ended Aug S \$15.4bm at \$15
	UK	Jul prod pri ind ex-food/drink/tob**	0.2%	0.2%		US	Jul monthly M1
	UK	Jul British Retail Consortium survey	. 14	-0.1%		US	Jul monthly M2 \$17.06n \$18
	Japan	Jul overall wholesale price Index*	· 0.0%	0.5%		US	Jul monthly MS \$3.5bn \$24
	Japan	Jul overall wholesale price index**	-0.3%	-0.3% .	Fil	Japan	Jun Industrial production†
Tues	France	Jul consumer price index pref"	-0.2%	0.05%	Aug 14	France	Q2 non farm payroll prei" . 0,8% . 0,07
Aug 11	France	Jul consumer price index prei	1.0%	1.0%		us	Jul producer price Index 0.0% -0.1
	Canada	Jul housing starts, units	137k	133k		US	Jul producer price ind* ex-food/energy 0.1%
	US	Q2 productivity prel'		1.1%		US	Jun business Inventories 0.0% -0.1
Weds	UK	Jul unemployment	0.7k	Q.7k.		us	Jul industrial production -0.5% -0.6
	UK	May average earnings	5.3%	5,4%		US	Jul capacity utilisation 80.9% 81.6
	UK	Apr unit wages three months**	6.1%	8,5%		US	Aug Michigan Sentiment Preliminary 105.0 105.
	US	Jul Atlanta Fed Index		17.6		US	Jul bank credit 4.15
	Japan	Jun current account (IMF) not†	Y1.28tn	Y988bn ·	During 1	he week	
	Japan	Jun trade balance (IMF) not†		Y1.09bn		Germany	Jul final cost of living" west 0.19
	Japan	Jun foreign bond investment		Y1.12tn		Germany	Jut final cost of living** west 1.19
Thur	US	Jul retail sales	-0.7%	0.1%		Germany	Jul cost of living" pen Germany 0.2% 0.19
	US	Jul retail sales ex-automobiles	0.4%	0.1%		Germany	Jul cost of living" pan Germany 0.9% 1.29
	us	Initial claims Aug 8	310k	307k		Germany	Jul wholesale price index*: -0.5% -0.4
	us	State benefits Aug 1		2447k		Germany	Jun retail sales, real!" 1.49

ACROSS

- 1 Though fast with a roll of notes, he's very stingy (8) 5 Telephoned after the odds
- leapt up (6)

 9 He sees robes are laid out
- before priest returns (8) 10 Boat put out on journey to see island (6) 12 Carries, as on a camel (5)
 13 Aware how Kent got into trouble when batting first (2,3,4)
- 16 French arrogance (7) 19 Not stooping to disho
- (6) 23 This fruit makes a heav-

- (8) in the 25 Engagement ring." (5) sound (6) 29 To put one at risk on pur-

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- DOWN
- to get a prize (6) 2 Maybe it's some great big
- fuel store (9)

 3 Pees set for law sittings (5) 4 A married woman in the country (7)
- 6 Pursue writing style attractive to Americans (8) 7 Arthur's head is in a drink
- once more (5) 8 Used for light bait? (4-4) (2,3,4)

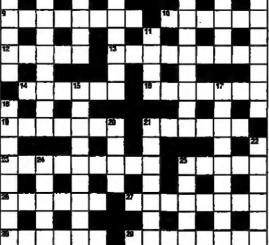
 14 Makes a start in making the beds (6)

 16 French artogance (7)

 19 Not stooping to dishonesty

 11 It is fashionable to mise one's cap in 4 down (4)

 15 Make worse by keeping tank in crumbling garage
 - 17 Calm and painless death (9) 18 Amount of business that's
- 23 This fruit makes a heavenly drink in the east (9)
 25 Troublesome gnats cause
 20 Deck is ship-shape (4)
 21 To commit one rats by
- anxiety (5)
 36 improper fractions may be so described (6)
 27 A star of the printed word
 (6)
 47 A star of the printed word
 (6)
 48 ingre-scale (iddie (5))



MONDAY PRIZE CROSSWORD

No.9,756 Set by DANTE A prize of a Tombow Lucca fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday August 20, marked Monday Crossword 9,755 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday August 24. Please allow 25 days for delivery of prizes.

Solution 9,744



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